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SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE

REPORT OF THE SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE ON THE WORK OF ITS THIRTEENTH SESSION (PART ONE), LYON, 11-15 SEPTEMBER 2000

Addendum

MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL*

Consolidated text on principles, modalities, rules and guidelines

Note by the chairmen

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PART TWO
ARTICLE 12 OF THE KYOTO PROTOCOL

I. [Draft decision [B/CP.6]: Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties,

Recalling **that in Article 12 of the Kyoto Protocol a clean development mechanism (CDM) has been defined with the purpose to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to decision -/[CMP.1]],**

Recalling **its decision 1/CP.3, in particular paragraph 5 (e),**

Recalling also **its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session** on, inter alia, modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol, with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities, and including implications of Article 12, paragraph 10, of the Kyoto Protocol,

Recalling also **its decision 8/CP.4,**

Recalling further **its decision 14/CP.5,**

Emphasizing **the importance of reliable, transparent baselines for the assessment of additionality of projects under Article 12 of the Kyoto Protocol,**

Recognizing **the need of methodological guidance for project developers, validators and certifiers,**

Emphasizing **that Parties should use technologies in a way that minimizes any adverse environmental and social effect**

1. ***Urges*** **the Parties concerned to start implementing measures to assist Parties not included in Annex I to the Convention with building capacity in order to facilitate their participation in the clean development mechanism;**

Option A (para. 2)

2. **[*Decides* /to establish*//the prompt start of]* the clean development mechanism [on an interim basis, in observance of Article 12, paragraph 10 of the Kyoto Protocol and]** ***in accordance with the modalities*** **and procedures** ***contained in the annex to this decision.*** **The Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol related to the clean development mechanism until the latter's first session. An [interim] executive board shall meet for the first time by [DD/MM/YYYY]** and shall, inter alia:

(a) Issue an [interim] UNFCCC clean development mechanism reference manual by [DD/MM/YYYY]];

(b) [Submit draft procedures for its operation to the Conference of the Parties at its [xth] session];

Option B (paras (3-6):

3. *Decides* to establish an executive board to facilitate a prompt start of the clean development mechanism;

4. *Decides* that the executive board referred to in paragraph 3, and any operational entities accredited by that executive board, shall operate in the same manner as the executive board and designated operational entities of the clean development mechanism as set out in the annex attached to this decision and that the executive board shall convene its first meeting by [DD/MM/YYYY];

5. *Decides* that for purposes of this decision, the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as set out in the annex attached to this decision;

6. *Decides* that this decision shall be effective immediately upon adoption and remain in effect until the decision referred to in paragraph 13 of this decision is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

7. [Option 1: *Requests* the Subsidiary Body for Scientific and Technological Advice to finalize, no later than at its [X] session, a positive list of renewable energy, including landfill gas, and energy efficiency technologies, in particular in the transportation sector;

Option 2: ***Decides*** **to adopt a***/n initial/* **positive list of safe** ***and*** **environmentally sound eligible projects, based on the following categories:**

(a) **Renewable energy: solar energy, wind energy, sustainable biomass, geothermal heat and power, small scale hydro power, wave and tidal power, ambient heat, energy recovery from biogas, including landfill gas;**

(b) **Energy efficiency: advanced technologies for combined heat and power installations and gas fired power plants; significant improvements in existing energy production; advanced technologies for, and/or significant improvements in industrial processes, buildings, energy transmission, transportation and distribution; more efficient**

and less polluting modes of mass and public transport (passenger and goods) and improvement or substitution of existing vehicles;

(c) Demand side management: improvements in residential, commercial, transport and industrial consumption.

7bis ***Recommends*** **that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session after the entry into force of the Kyoto Protocol, review the positive list set out in paragraph 7 above, based on the experience with the initial positive list.]**

8. **[*Invites* the Intergovernmental panel on climate change (IPCC) to prepare guidelines for baseline setting under the guidance of the executive board, taking into account:**

(a) All baseline related sections of the annex to the draft decision [/CMP.1] on modalities and procedures for a clean development mechanism;

(b) All baseline methodologies as approved [in the interim phase of the clean development mechanism] by the [interim] executive board; and

(c) The terms of reference provided in the annex 1 to this decision;]

9. **[*Requests* the Subsidiary Body for Scientific and Technological Advice to adopt the guidelines for baseline setting at its /16th//*xth*/ session;]**

10. [Option 1: *Invites* [Parties] [regional groups] to appoint members to the [interim] executive board, before [DD/MM/YYYY], in accordance with the modalities contained in the annex to this decision;

Option 2: ***Elects*** **the members of the [interim] executive board contained in annex 2, nominated in accordance with the modalities contained in the annex to this decision;]**

11. ***Requests*** **[the secretariat of the Convention] to perform [interim] functions assigned to it as contained in the annex to this decision**[1]**;**

12. ***Invites*** **Parties to contribute to the trust fund established to cover the administrative expenses of the [interim] executive board. Such contributions shall be reimbursed, if requested, from the share of proceeds collected for administrative expenses;**

13. ***Recommends*** **that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session after the entry into force of the Protocol, adopt the following decision:**

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[1] **The resource implications of the [prompt start] [establishment] of the clean development mechanism [on an interim basis] need to be specified.**

Decision -/[CMP.1]

Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account **provisions contained in Articles 3 and 12 of the Kyoto Protocol,**

Bearing in mind **that in accordance with Article 12[2] the purpose of the clean development mechanism (CDM) is to assist Parties[3] not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3** [***and reflecting provisions contained in appendix X to the annex to this decision***],

Recognizing **that each certified project activity must involve the participation both of a Party included in Annex I and a Party not included in Annex I, for achieving the** two-fold **purpose of the clean development mechanism,**

Acknowledging **that the participation of Parties not included in Annex I in certified project activities for the purpose of sustainable development, makes the clean development mechanism distinctive from the other mechanisms,**

[***Also bearing in mind*** [Article 3, paragraph 12] [that, in accordance with Article 3, paragraph 12, of the Kyoto Protocol, any certified emission reductions which a Party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party]][**, the provisions contained in Articles 3 and 12 of the Kyoto Protocol, in accordance with which, any certified emission reductions which a Party acquires from another Party not included in Annex I, shall be added to the assigned amount of the acquiring Party, keeping in view that any such acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the acquiring Party without altering that Party's assigned amount pursuant to its quantified emission limitation and reduction commitments inscribed in Annex B**];]

Bearing in mind further **that a share of the proceeds from certified project activities under the CDM shall be used** [, inter alia,] [**to cover administrative expenses and**] **to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation** taking into account the impacts on food and agricultural sustainability, keeping in view the poorest populations which are the most vulnerable,

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[2] **'Article' means an article of the Kyoto Protocol, unless otherwise indicated.**

[3] **'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.**

[***Affirming*** **that, in their actions to achieve the purpose of the CDM, Parties shall be guided by Articles** ***2 and*** **3 of the Convention** and, inter alia, the following considerations:

[Equity: The principle of equity in the Convention must apply to all aspects of the CDM based on equitable development rights and equitably spread regional activity, and equitable procedures and requirements being applied to all Mechanisms. The right to development of developing countries must not be affected adversely in any way. It must be ensured that the CDM does not have any possibility or potential of perpetuating existing inequities between developing and developed countries.]

[Equity: Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties , while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties. [Developed countries shall contract greenhouse gas emissions to reduced levels, with per capita emission levels in developed and developing countries coming on a converging path, and related to a trend leading to the stabilization and eventual reductions of the concentration of greenhouse gases in the atmosphere;]

The CDM shall not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing countries. The implementation of the CDM should be based on equitable development rights, the sharing of mitigation cost surpluses from CDM projects between Parties included and Parties not included in Annex I and balanced regional activity. [Projects under the CDM shall not increase the costs of reducing emissions in host country Parties in the long term];]

[The limitation and reduction of emissions through CDM project activities does not lead to the creation or bestowal of any right, title or entitlement;]

[Comprehensiveness: Projects under Article 12 shall comprehensively cover all relevant anthropogenic sources, [sinks and reservoirs] of greenhouse gas emissions, adaptation, and all economic sectors;]

Sustainable development: CDM project activities shall contribute to the sustainable development of the host Party, in accordance with priorities set by the host Party, and shall not represent a long-term ecological debt. [However, these activities shall not go against the agreed principles of other multilateral agreements or Agenda 21 and the Commission on Sustainable Development.] The CDM should be oriented towards improving the quality of life of the very poor from the environmental and social standpoint and creating opportunities for the private sector of the host country Party [related to design and implementation of project activities];

[Climate change effectiveness: Any CDM project activity, in accordance with Article 12, paragraph 5 (b), shall provide real, measurable and long-term benefits related to the mitigation of climate change;]

[Additionality: Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, in accordance with Article 12, paragraph 5 (c). [Public] funding for CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] *[the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance (ODA) flows]*[Global Environment Facility [[and] [or] other financial commitments of Parties included in Annex I], official development assistance [[and] [or] financing from other systems of cooperation]. [Commercially viable business as usual projects should not be eligible as CDM projects.]]

Transparency: All aspects of project activities and the institutions under the CDM shall be transparent, including in relation to costs, risks and liabilities incurred by Parties, while protecting confidential information;

Non-discrimination, prevention of distortion of competition: All developing country Parties may participate in or initiate CDM project activities on a voluntary basis. No unilateral measures should preclude a Party not included in Annex I from participating in or initiating any CDM project activity. CDM activities should not distort competitiveness in the market of the host country;

Special needs of least developed countries: Activities under the CDM should give full consideration to the special needs of least developed countries, in particular to the identification of their special technology needs and to capacity-building;

Special vulnerabilities and character of small island developing states: Activities under the CDM should take into account the special vulnerabilities and character of small island developing states, in particular capacity-building for adaptation activities and the implementation of CDM project activities;

Special situations of developing countries that are particularly vulnerable to the adverse effect of climate change taking into account the adverse impacts on food and agricultural sustainability, keeping in view the poorest populations which are the most vulnerable, as well as: Activities under the CDM should take into account the special situations of vulnerable developing countries, particularly in capacity-building for adaptation activities and the implementation of CDM project activities;

Transfer of [most advanced cost-effective] technology and financial resources to Parties not included in Annex I: Project activities must ensure that Parties not included in Annex I have access to the [advanced] environmentally safe and sound technology they need. Technology transfer in CDM project activities shall be additional to commitments of Parties included in [Annex I] [Annex II] on technology transfer to developing country Parties under the Convention.

The special needs of developing country Parties have to be addressed for identifying technology needs and helping enhance capacities for assimilation of technology;

Transferability: Once issued, CERs [may] [may not] be transferred to another Party or entity;

Fungibility/non-fungibility: Parties [may] [may not] exchange emission reduction units[, certified emission reductions] and [assigned amount units][parts of assigned amount] [in accordance with rules and procedures established by the COP/MOP which are to ensure their effective environmental equivalence];]

***Having considered* decision B/CP.6,**

1. *Decides* to confirm and give full effect to any actions taken pursuant to decision B/CP.6;

2. ***Decides* to adopt the modalities and procedures for a CDM contained in the annex to this decision;**

3. ***Decides* that the share of proceeds** to be used in accordance with Article 12, paragraph 8 shall be [x per cent of y], of which [no more than *z* per cent] **shall be *collected and* allocated, *in accordance with provisions contained in appendix D*, to *cover* administrative expenses and** [no less than 100-*z* per cent] **to the adaptation fund[4] defined in appendix E to the annex** [. The share of proceeds for assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol];

4. Option 1: *Decides further* to review and, where appropriate, revise the modalities and procedures contained in the annex and any guidelines established thereunder. This shall be five years after [the start of operation of the CDM] [within three years of the adoption by the COP/MOP], and periodically thereafter, and include issues such as the implementation of CDM project activities and their geographical spread, the distribution of financial assistance to adaptation projects and matters related to the adaptation fund. Revisions shall not affect [the first commitment period and] already registered project activities. [Any revisions to this decision shall be made by consensus of the Parties];

Option 2: ***Decides further* that possible future revision of /th*ese* [modalities and procedures][guidelines]/ [this decision and its annex] may be considered taking into account the experience of Parties,** relating to, inter alia, the implementation of CDM project activities and their geographical spread as well as the share of proceeds. **Revisions shall not affect CDM project activities** [during the first commitment period nor those] **already** [approved][**regist*e*red**]. **[Any revisions to this decision shall be made by consensus of the Parties];**

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[4] **[An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]**

5. ***Requests*** **[the secretariat of the Convention] to perform functions assigned to it as contained in this decision and its annex[5].]**

[5] **The resource implications of this operative paragraph will need to be specified.**

II. Annex

MODALITIES AND PROCEDURES FOR A CLEAN DEVELOPMENT MECHANISM

[Definitions

For the purpose of this Annex:

(a) **"Party" means, unless the context otherwise indicates, a Party to this Protocol.**

(b) **"Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.**

(c) **"Article" means an Article of the Protocol, unless otherwise indicated.**

(d) **An "emissions reduction unit" or "ERU" is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.**

(e) **A "certified emissions reduction" or "CER" is a unit issued pursuant to Article 12 and requirements thereunder, equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.**

(f) **Option 1: An 'assigned amount unit' or AAU refers to a part of assigned amount equal to one tonne of carbon dioxide equivalent emissions, calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5 [allocated by a Party in Annex B to its authorized legal entities].**

Option 2: "Assigned amount units" or "AAUs" are units calculated pursuant to Articles 3.7, 3.8, [3.3, and 3.4] each equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.

(g) **A 'part of assigned amount' (PAA) is a part of the assigned amount of a Party** included in Annex B as defined in Article 3[, paragraph 7,] **equal to one tonne of carbon dioxide equivalent emissions, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.**

(h) **["Assigned amount" includes AAUs, CERs and ERUs.]**

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

1. [The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall, inter alia, determine the nature and extent of the supervisory role of the executive board, as referred to in Article[6] 12, paragraph 4, including in relation to:

(a) The ability and the extension of the mandate of the executive board to establish rules, guidelines, or procedures that elaborate on or implement decisions of the COP/MOP;

(b) [[Decisions] on "appeals" against [decisions or] conclusions of the designated operational entities and/or independent auditors referred to in Article 12, paragraphs 5 and 7, respectively;]

(c) Any role (and, if so, what role) regarding initial or final determinations of whether a project is actually resulting in claimed CERs[7] and, if not, what happens thereafter;

(d) Limits with regard to general oversight of the activities of the designated operational entities and/or independent auditors for the purpose of keeping the COP/MOP informed as to how activities are progressing under Article 12;

(e) Engaging in a combination of some or all of those roles, as well as others.]

2. [[The COP/MOP shall, inter alia, determine the implications of the subordination of the executive board to the COP/MOP, including][Recognizing that the executive board is subordinate to the COP/MOP]:

(a) [Whether] 'appeals' against decisions of the executive board may be taken to the COP/MOP. [Whether or not such 'appeals' are allowed, it must be made clear that] the COP/MOP is not prevented on its own initiative from reviewing, modifying, or overruling any decision or other act of the executive board;

(b) [The respective roles of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA) should be established for cases in which the COP/MOP is to review or consider an executive board decision, either on the initiative of the COP/MOP or by reason of an "appeal";]

(c) [What body or instance may take such "appeals", if they are allowed, and on what types of issues;] [The rules and procedures governing appeals from decisions of the executive board and COP/MOP review on its own initiative of decisions of the executive board, including guidelines concerning the respective roles of the SBI and the SBSTA in those proceedings, are set forth in Appendix F;]

(d) [The time-period in which such "appeals", if they are allowed, must be taken and the procedure for COP/MOP consideration of the "appeal";]

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[6] 'Article' means an article of the Protocol, unless otherwise indicated.

[7] A 'certified emission reduction' (CER) is defined in accordance with decision D/CP.6.

(e) [If such "appeals" are allowed, or if the COP/MOP on its own initiative reviews or considers an executive board decision, the circumstances in which the decision might be suspended pending completion of COP/MOP disposition of the matter.]]

(Note: Paragraph 4 addresses issues related to appeals in the two previous paragraphs.)

3. **The COP/MOP shall** [exercise its]*[have]* authority over and provide guidance to the CDM by:

(a) **Consider annual reports of the executive board and** [, if appropriate,] **provide *necessary* guidance to the executive board [regarding** [its administration ***the implementation* of the decisions of the COP/MOP** that establish the guidelines **on] issues such as, project eligibility, criteria for additionality, methodologies for determining baselines; guidelines for monitoring, verification, certification, accreditation and reporting; and the reporting format];**

(b) [[Approve] [Periodically review and revise as necessary the] rules and procedures for the preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties[8] and accredited observers [set forth in Appendix ...];]

(c) Define the functions of the executive board of the clean development mechanism;

(d) ***Adopt revisions to these modalities and procedures [by consensus].*** Formulate the principles, rules, modalities and guidelines for the functioning of the clean development mechanism and project activities therein, including determination of methodological issues and baselines for determination of reduction in emissions that are additional to any that would occur in the absence of certified project activity;

(e) ***Option 1: Receive a list of the operational entities designated by the [accreditation body].***

Option 2: Designate a list of operational entities recommended by the [accreditation body].

(f) [Review the regional and subregional distribution of CDM projects with a view to [ensuring][promoting] equitable distribution and provide appropriate guidance to the executive board accordingly.]

4. ***Option 1:*** **[The COP/MOP [may] [shall] consider appeals against decisions taken by the executive board**. The COP/MOP may, **upon request of [x] Parties, *CDM project activity participants* or on its own initiative. The rules and procedures governing appeals of executive board decisions[, including guidelines concerning the respective roles of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA) in those proceedings,] are set forth in appendix F. *The COP/MOP may*,** review, **modify or overrule any decision or other action of the executive board** based on [technical and procedural] advice by the SBSTA and the SBI. **The COP/MOP**

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[8] 'Party' means a Party to the Protocol, unless the context indicates otherwise.

shall make a final decision within [x] [months] [**sessions.**] after a request has been made by [x] Parties.]

Option 2: [The COP/MOP shall accommodate appeals from Annex I or host countries, proponents of CDM projects or public or private entities[9] [in the host country directly] affected by such projects.]

Option 3 2: **[Consider and decide upon any matter which a Party may refer to it related to a decision of the executive board in accordance with the rules which may be formulated for such purpose.]**

Option 4 3: (Note: No text required as a Party may propose an item, including an appeal against an executive board decision, for the COP/MOP agenda in accordance with the COP/MOP rules of procedure.)

5. [[Arbitration][Settlement] of disputes between Parties shall be undertaken in accordance with Article 14 of the Convention.] [; provided, however, that such arbitration shall not limit or in any other manner preempt or prejudice the authority or the decisions of the COP/MOP, the executive board referred to in these guidelines, or the compliance body referred to in Decision[10] -/CP.6]

6. Provided, that **Nothing in this section shall prevent the COP/MOP from considering and deciding any matter, *suo-moto*, which may be related to the working of the CDM, including the review, modification, or overruling of any decision or other act of the executive board.**

B. Executive board

7. **The executive board shall**:

(a) **Supervise the** [daily management of the] [implementation of] **CDM, subject to the authority and guidance of the COP/MOP, to ensure that CDM project activities are in conformity with the Convention, the Protocol and all relevant decisions of the COP/MOP;**

(b) **Be responsible for carrying out functions and mandates mentioned in this decision, its annex and relevant decisions of the COP/MOP *and*** The executive board shall **be fully accountable to the COP/MOP** [as a separate standing body of the COP/MOP];

(c) **Make recommendations to the COP/MOP on rules, modalities and guidelines, and related procedures for the functioning of the CDM;**

(d) [***Maintain and make available the UNFCCC CDM reference manual*** for the development and stipulation of baselines and determination of reductions in emissions that are additional to any that would occur in the absence of the certified project activity;]

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[9] 'Private and/or public entities' are those entities referred to in Article 12, paragraph 9.

[10] The reference to 'Decision -/CP.6.' is to the decision establishing a compliance system pursuant to Article 18.

(e) [Assure that, as far as possible, CDM project activities shall comprehensively cover all relevant anthropogenic sources, [sinks and reservoirs] of greenhouse gas emissions, adaptation, and shall comprise all economic sectors;]

(f) [[Make recommendations to the COP/MOP concerning] [Revise and amend] the areas in which CDM project activities can be undertaken and the types of project activities that can be included [and submit recommendations for adoption to the COP/MOP];]

(g) [[Determine] **[*A*pprove] [Make recommendations to the COP/MOP on] new [threshold], baseline[, sink crediting] and monitoring methodologies, *based on a request by (i) host Parties for application in their territory, (ii) designated operational entities or (iii) the executive boards' own work*, in accordance with the provisions in sections G, H and *I below* on validation, *registration and monitoring* /for placement in the *UNFCCC CDM* reference manual]** below [and submit recommendations for adoption to the COP/MOP];]

(h) ***/*Develop guidance*//Make recommendations to the COP/MOP on], as necessary*, relating to**

(i) The methodologies referred to in paragraph 121 subparagraph c; and

(ii) **Accounting for changes in emissions and removals that are significant and reasonably attributable to a project activity but outside the geographic area of the reference scenario to be used in the calculation of CERs;**

(i) [Provide guidance to private and/or public entity participants [following] [in accordance with] decisions of the COP/MOP;]

(j) ***Review accreditation standards and recommend their revision to the COP/MOP for its adoption;***

(k) ***Perform the registration of CDM project activities, in accordance with the provisions in sections G and H below on validation and registration;***

(l) ***Develop and maintain a registry of CDM project activities;***

(m) ***Issue CERs in accordance with the provisions in section L below on issuance of CERs.*** Register and account for the certified emission reductions accruing from project activities and their acquisition by Parties to contribute to compliance with commitments under Article 3*;*

(n) Maintain the central registry of CERs and report annually to all Parties the registry accounts of each Party and of the legal entities resident in that Party;

(o) ***Assess, collect and transfer the share of proceeds referred to in Article 12, paragraph 8, in accordance with appendix D;***

(p) Option 1: [Propose measures resulting in equitable distribution of CDM projects;]

Option 2: **Review the regional distribution of *CDM* project *activities* with a view to identifying any systemic barriers and reporting to the COP/MOP;**

(q) **[Recommend to the COP/MOP rules and procedures of the executive board and** [decisions on rules and procedures] **[revisions thereto** by the COP/MOP to the rules and procedures *of* set forth in Appendix G] for the efficient functioning of the executive board in relation to, inter alia, the preparation and distribution of the provisional agenda of executive board meetings and presentations to be made to the executive board by Parties and accredited observers;]

(r) **Define and adopt an independent review procedure to address concerns raised by Parties or accredited observers to the UNFCCC relating to observance of modalities and procedures of the CDM in the context of decisions made by the executive board or designated operational entities;**

(s) **[Facilitate, as appropriate, a specific mechanism to be established by the COP/MOP to assist Parties not included in Annex I with the capacity-building required to participate in CDM activities;]**[[Assign][Recommend], as appropriate, functions to other institutions under Article 12 within the framework provided for by the COP/MOP [and define the roles of multilateral agencies, especially as regards the development of the institutional capability required to promote broad participation by all Parties not included in Annex I][and submit recommendations for adoption to COP/MOP];]

(t) **[Assist in arranging** [national, bilateral and] [multilateral] **funding of CDM project activities, as necessary,** including ***by*** acting as a project clearing-house and **publishing** ***relevant*** summary **information on proposed CDM project activities in need of funding** ***and investors seeking opportunities*****;]**

(u) [Administer the 'CDM equitable distribution fund';]

(v) **Make public,** ***in accordance with subparagraph (w) below,*** **[all relevant, non-confidential information for project activities, including that contained in registered project design documents,** public **comments received, verification reports, its decisions and all CERs issued]**[relevant non-confidential information on the registration of CDM projects including the identification number]**;**

(w) **Not disclose, except as required in the applicable procedures contained in COP/MOP decisions or by law, information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information;**

(x) **Report to each session of the COP/MOP on its activities**, new projects registered and CERs issued **and prepare recommendations for consideration by the COP/MOP as appropriate;**

(y) Arrange for the effective management of the adaptation fund defined in appendix E;

(z) Approve the baseline methodologies on a project by project basis, in accordance with article 5, paragraph 2, as described in Appendix A;

(aa) **Under the mandate of the COP/MOP, [be]**[establish][select] **the [accreditation body] for operational entities.** Suspend or withdraw the designation of an OE if it not longer

meets standards or decisions, after conducting a hearing; notify concerned OE and make decision public. The executive board shall accredit and designate operational entities in accordance with the standards and procedures contained in appendix A and relevant decisions of the Conference of the Parties serving as the meeting of the Parties to the Protocol, to carry out functions in paragraphs 5 and 7 of Article 12, and suspend or terminate the accreditation or designation of such operational entity if there are sufficient grounds for doing so.

(Note: Former paragraphs 20 to 22 have been moved to the section on the [accreditation body].)

8. **The executive board shall** consist of [x] members and **comprise ...**

- [Option 1: an equal number of representatives from Parties included and Parties not included in Annex I.]

- **[Option *1*2: */eight//x/* members chosen** by and **from among Parties included in Annex B*I*, and */eight//x/* members chosen** by and **from among Parties not included in Annex B*I*.]**

- **Option *2*3: [three]**[seven] **persons proposed by Parties from each of the five United Nations regional groups, */on a rotational basis/*.**

- Option 4: a fair and geographically equitable membership that reflects the unique representational balance established by the practice of the Parties (such as the Bureau of the COP) and be functionally small.

- Option 5: two representatives from Asia, two representatives from the Americas, two representatives from Europe, two representatives from Africa and [one][two] representative[s] from the small island States, making up a total of [nine][ten] members.

- Option 6: eleven members selected on the basis of rule 22 of the UNFCCC rules of procedure being applied, supplemented by two members selected by Parties included in Annex I and three members selected by Parties not included in Annex I, making a total of 16 members.

9. **Members of the executive board shall be nominated by Parties included [and Parties not included in Annex I, respectively] [in each of the five United Nations regional groups] and be elected by [the COP/MOP]** [Parties included and Parties not included in Annex I, respectively] and shall be [proposed by the Parties] [nominated by [each of the five] [the appropriate] United Nations regional groups]. **[Vacancies shall be filled in the same way.]**[A vacancy should be filled by the COP/MOP electing a successor who is nominated by the regional group that had nominated the person holding the position that became vacant].

10. **Members shall be appointed for a period of** [up to] **two years *and be eligible***, with the ability **to serve a maximum of two */consecutive/* terms.** To create staggered terms, **[y] *[Half of the]* members *nominated initially by each group*** from Parties included and Parties not included in Annex I, respectively, **shall** initially **serve for a period of [one]*[three]* year*/s/*. *The members shall remain in office until their successors are elected.***

11. **Members should possess appropriate technical expertise [and shall act in their personal capacity].**

12. ***Members shall have no interest, financial or other, in any CDM project activity submitted to the executive board for the purpose of registration or for any other purpose.***

13. ***Members shall have no interest, financial or other, in any issuance of CERs by the executive board.***

14. ***Subject to their responsibilities to the board, members shall not disclose any confidential information coming to their knowledge by reason of their duties for the executive board.***

15. ***The duty of the member not to disclose confidential information constitutes an obligation in respect of that member and shall remain an obligation after the expiration or termination of that member's function for the executive board.***

16. ***Before assuming his or her duties, each member shall make the following written declaration witnessed by the Secretary General or his/her authorised representative:***

(Note: Text to be drafted.)

17. ***The executive board may decide to terminate the membership of a particular member for cause on any of the following grounds:***

(a) ***Breach of the conflict of interest provisions;***

(b) ***Breach of the confidentiality provisions;***

(c) ***Failure to attend [x] consecutive meetings of the board; and***

(d) ***Other reasons as the executive board deems appropriate.***

18. Option 1: The COP/MOP shall select a chair and a vice-chair of the executive board from among its members, with one of those officers being from a Party not included in Annex I.

Option 2: The COP/MOP shall select a chair and a vice-chair of the executive board with equitable regional rotation.

Option 3: **The executive board shall elect its own chair and vice-chair, with one being a member from a Party included in Annex B*I* and one being a member from a Party not included in Annex B*I*. The chair and vice-chair shall alternate annually between members from Parties included and Parties not included in Annex B*I*, respectively.**

19. **The executive board shall meet as necessary but no less than three times a year.**

20. ***At least two thirds of the members of the executive board, representing a majority of members from Parties included in Annex BI and a majority of members from Parties not included in Annex BI, must be present to constitute a quorum.***

21. [**Decisions by the executive board shall be taken by consensus.** ***The chair shall ascertain a consensus.*** [whenever possible. **If all efforts at reaching a consensus have been exhausted, and no agreement reached, decisions** [on matters of substance] **shall be taken by a two-thirds majority of the members [present and voting at the meeting] [, representing a majority of members** chosen by and **from** among **Parties included in Annex B*I* and a majority of members** chosen by and **from** among **Parties not included in Annex B*I*]].** Decisions on matters of procedure may be taken by a majority of members present and voting. A decision concerning whether a matter may be treated as a matter of procedure shall be treated as a matter of substance.] ***Members abstaining from voting shall be considered as not voting.***

22. [The executive board shall not take a decision unless at least one member of the executive board from each of the five United Nations regional groups is present in person. The executive board shall not delegate any decisions for which it is responsible.]

23. Option 1: [**Meetings of the executive board shall be open** to attendance, as ***to*** **observers**, by all Parties and by all accredited observers, ***in accordance with and*** **except where** provided for ***prohibited*** **by its rules and procedures**.]

Option 2: [Meetings of the executive board shall be closed and open to observers on invitation only.]

24. **The full text of all decisions of the executive board shall be kept by the secretariat** [and ,**be communicated to each Party** ***and be made publicly available*** [and other entities as appropriate][and to the categories of persons and entities that the COP/MOP believes should receive them]**.** ***The working language of the executive board shall be English.*** **Decisions shall be** translated into ***made available in*** **all six official languages of the United Nations.**]

25. *Option 1:* **The executive board shall, as appropriate, make arrangements for the** administrative **support necessary for its activities, under the guidance of the COP/MOP.** The [UNFCCC] secretariat [within its functions outlined in paragraphs 2 (a) and (g) of Article 8 of the Convention] [on request by the executive board and under the guidance of the COP/MOP] [shall] [may] [support the executive board as necessary] [provide administrative and secretariat assistance to the executive board]. This assistance could include compiling, synthesizing and disseminating information related to CDM activities, including in relation to Article 12, paragraph 6, and performing other secretariat functions as requested by the executive board.

Option 2: The executive board shall be supported by a dedicated secretariat, comprising technical and administrative staff. The executive board shall be located in the secretariat of the Convention. The Convention secretariat shall be extended to accommodate this role.

26. **The executive board may draw on [outside] [experts][expertise] for [dealing with] [advice on] technical and methodological matters, as appropriate and in a manner that reflects balanced regional participation**[.][, subject to strict compliance with the rules set forth in Appendix H concerning avoidance of conflicts of interest].

27. **The executive board may establish committees, panels or working groups to assist in the performance of its functions.**

28. The executive board shall assess the share of proceeds referred to in Article 12, paragraph 8, upon receiving a request for CERs to be issued. The executive board shall deduct *collect* the appropriate [share of proceeds] [number of CERs] from the quantity of CERs to be issued as a result of the project activity[, prior to their allocation *of CERs* to project participants[11]] The amount of the share of proceeds to be used to cover administrative expenses shall be retained by the executive board for this purpose. The [remaining] amount of the share of proceeds to be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation shall be [transferred to an adaptation fund established by the [COP] [COP/MOP] (see appendix E)] [be channelled through an existing institution].

29. [The executive board shall register and account for the generation, transfer and retirement of CERs, in accordance with provisions in decision D/CP.6 on registries, maintain the central registry and report annually to all Parties the registry accounts of each Party and of legal entities resident in that Party.]

[C. [Accreditation body]

(Note: Please also refer to paragraph 7 (aa) above in which the executive board is foreseen to assume the functions of the accreditation body.)

30. [The [accreditation body] shall accredit operational entities, in accordance with the standards and procedures contained in appendix A and relevant decisions of the [executive board] [COP/MOP]. The executive board [*accreditation body*] may review the accreditation standards, as appropriate, and recommend any revisions and amendments to *the accreditation standards to* the COP/MOP for adoption. [The [accreditation body] to be responsible for the works related with the accreditation of operational entities shall be established by the executive board as a separate subsidiary organ of the executive board. The [accreditation body] will function under the guidance of the executive board. The list of the operational entities accredited should be submitted to the COP/MOP for approval for designation as defined in the article 12.5.] [Based on the standards contained in appendix A, the executive board shall recommend to the COP/MOP the potential designation of operational entities referred to in Article 12.5.]

31. ***Option 1***: This **Accreditation by the [accreditation body] shall constitute the designation of operational entities by the COP/MOP as stipulated in Article 12.5. The** executive board **[*accreditation body*] shall submit annually the list of *designated* operational entities *that meet the accreditation standards contained in appendix A* to the COP/MOP. The** executive board **[*accreditation body*] shall maintain a publicly available list of all designated operational entities.**

Option 2: **The** executive board **[*accreditation body*] shall submit the list of accredited entities *that meet the accreditation standards contained in appendix A* to the COP/MOP** for approval as defined in Article 12.5 **for designation as operational entities *in accordance with Article 12.5.* The** executive board **[*accreditation body*] shall maintain a publicly available list of all designated operational entities.**

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[11] 'Participant' means a Party, a private or public entity [resident in] [of] a Party, or both, that has entered into a contractual agreement [on] [to implement] a CDM project activity.

32. [If the information supplied by an operational entity in respect of the accreditation criteria is insufficient to make a decision about accreditation, the [accreditation body] may carry out a competence analysis in cooperation with the operational entity. This would:

(a) Comprise an assessment of skills in response to evaluated needs;

(b) Cover the requirements of each relevant technical area;

(c) Demonstrate that the operational entity is able to identify the typical technical areas, environmental aspects and associated impacts of CDM activities.]

33. **At regular intervals not exceeding [x] years, as well as through spot-checking at any stage, the [accreditation body] [**executive board**] shall review whether *each designated* operational entity continues to comply with the accreditation standards *contained in appendix A*, including, as appropriate**:

(a) **Auditing of relevant functions and activities of *designated* operational entities;**

(b) **Monitoring the quality of the validation, verification or certification operations undertaken, including work subcontracted.**

34. In reviewing designated operational entities, the [accreditation body] [executive board] may request further information from them and/or project participants, as necessary.

35. **The** executive board [***accreditation body***] **may [recommend to the COP/MOP that the COP/MOP] [, on a provisional basis, until final approval by COP/MOP,] suspend or withdraw the designation of an operational entity if it finds that the entity no longer meets the accreditation standards or applicable decisions of the COP/MOP. The** executive board [***accreditation body***] **shall immediately notify the affected *designated* operational entity and the COP/MOP of such action. Any decision taken by the** executive board [***accreditation body***] **to** [recommend the suspension or withdrawal of] **[withdraw] designation shall be taken only after the *designated* operational entity has had the possibility of a hearing. The** executive board [***accreditation body***] **shall make its decision on such a case public.**

36. **[Registered project activities shall not be affected by the suspension or withdrawal of designation unless deficiencies identified in the validation report, verification report or certification for the project activity constitute the reason for the suspension or withdrawal of the designation.]** ***If deficiencies in a validation report, verification report or certification for a project activity constitute a reason for the suspension or withdrawal of the designation of an designated operational entity the executive board shall decide on consequences regarding registration of the project activity or the validity of CERs issued.*** **Any such decision that adversely affects registered project activities shall be taken only after the affected project participants have had the possibility for a hearing.]**

D. Designated operational entities

37. **Designated operational entities [shall][**will**] be responsible for carrying out functions referred to in sections D, G-K and in the appendices to this annex as well as in other relevant decisions of the COP/MOP [and the executive board].**

38. **A designated operational entity [shall][**will**]:**

(a) Be accredited *designated* by /the COP/MOP/ [through the [accreditation body]];

(b) Be supervised by the executive board and ***Be* accountable to the COP/MOP through the executive board;**

(c) ***Validate proposed CDM project activities;***

(d) ***Verify*** monitor **and certify anthropogenic *emission reductions by sources [and enhanced anthropogenic removals by sinks]*** in emissions that are additional to any that would occur in the absence of certified project activity, in accordance with the modalities and procedures decided by the COP/MOP;

(e) [Be supervised by the executive board [and the designated national authority for CDM of the host Party] and be fully accountable to the COP/MOP, through the executive board;]

(f) Be subject to ***Comply with*** **modalities and procedures specified in applicable decisions of the COP/MOP [and the executive board];**

(g) [Be authorized by the designated national authority for CDM of the host Party to operate therein.][and/or][**Comply with applicable laws of the Parties hosting CDM project activities that it validates, verifies or certifies];**

(h) **Ensure that *it, and its subcontractors, have no real or perceived*** there is no **conflict of interest with the participants of the CDM project activities which *it has been*** they are **selected to validate, monitor, verify *or*** and **certify;**

(i) Inform immediately the [accreditation body] [executive board] [and host Parties] of any changes in its situation pertaining to accreditation criteria. If the [accreditation body] [executive board] is satisfied that the change in circumstances does not breach the accreditation criteria, it shall confirm the accreditation of the operational entity;

(j) [Not verify and/or from a CDM project activity which it has validated;] ***Perform only one of the following functions for a given CDM project activity: validation, monitoring[, verification or certification][or verification and certification];***

(k) [**Maintain** and publish ***a public*** a **list of all CDM project activities *in which it has been involved*** which it has validated, or for which it has verified and/or certified reductions in anthropogenic emissions by sources [and/or enhancement of anthropogenic removals by sinks], including, as applicable, an identification of subcontractors used for any such function. The operational entities shall make available the records of each certified project activity to the designated national authority for the clean development mechanism of the Party hosting the project;]

(l) **Submit annual activity reports to the [accreditation body] [**executive board] in accordance with appendix A. **The required documentation and records system, identified in appendix A, shall form the basis for the annual report.**

E. Participation

39. **Participation in a CDM project activity is voluntary.**

40. **A Party not included in Annex I may** [**benefit from**] [participate in][initiate] **CDM project activities if it:**

(a) **Has ratified the Protocol;**

(b) [**Is in compliance/***/Has not been found to be in non-compliance/*] **with** [**its commitments under Article 12 of the Convention;**]

(c) [**Is in compliance/***/Has not been found to be in non-compliance/*] **with the rules and guidelines established for the CDM and relevant provisions of the Protocol;**]

(d) [Is bound by a compliance regime adopted by the COP/MOP and has not been excluded from participation in the CDM according to its procedures and mechanisms;]

(e) [[Adheres to] [**Complies with**] **the provisions on registries contained in decision D/CP.6;**]

41. [Parties not included in Annex I may individually or jointly propose, develop, finance and implement projects under the CDM, [based on modalities and procedures applied in projects initiated by Annex I Parties,] [by abiding by the modalities and procedures and any guidelines thereunder] with specific reference to decision 1/CP.3, paragraph 5 (e). [Except for the CERs set aside for the purposes stated in Article 12, paragraph 8,] the CERs generated by such projects [can, in accordance with the national policies of the host Parties,][shall] be transferred to the Parties included in Annex I [that participated in the project activity] or to entities [resident in][of] Parties included in Annex I, for compliance with [their][those participating Parties] commitments under Article 3.]

Option A (para 42):

42. **A Party included in Annex I**[12] **may use CERs to contribute to compliance with** ***part of*** **its quantified emission limitation and reduction commitments under Article 3** [to make up for shortfalls in achieving its emission commitments under Article 3, subject to supplementarity provisions,] **if it:**

(a) **Has ratified the Protocol;**

(b) [[**Is in compliance**][**Has not been found to be in non-compliance**] **with its commitments under** [**Articles** [3,]**5 and 7**] [of the Kyoto Protocol] [**and** [**Article 12 of**] **the Convention**] [**in relation to emission inventories and accounting for assigned amount**];]

(c) [[**Is bound by any compliance regime adopted by the COP/MOP and**] **has not been excluded from participation in the CDM according to its procedures and mechanisms** [**, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17**];]

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[12] **'Party included in Annex I' means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention.**

(d) **[Is in compliance][Has not been found to be in non-compliance] with the rules and guidelines established for the CDM [and relevant provisions of the Protocol];**

(e) [[Adheres to] **[Complies with]** [Has not been found to be out of compliance with] **the provisions on registries contained in decision D/CP.6;]**

(f) **[Has achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X].]**

Option B (paras. 43 to 44)

43. **A Party included in Annex I may use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 if it:**

(a) **Has in place, by the time a report is submitted pursuant to paragraph 44 (a) and thereafter, a national system for the estimation of anthropogenic emissions by sources [and *enhanced anthropogenic* removals by sinks] of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;**

(b) **Has in place, by the time a report is submitted pursuant to paragraph 44 (a) and thereafter, a computerized national registry to account for and track all changes in its assigned amount, in accordance /with Article 7.4*[[decision D/CP.6]* and the requirements in the guidelines decided thereunder;**

(c) **Has established, by the time a report is submitted pursuant to paragraph 44 (a), its initial assigned amount, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;**

(d) **Has submitted, in the report described in paragraph 44 (a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and *enhanced anthropogenic* removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission;**

(e) **Has subsequently submitted for each year following the submission of a report described in paragraph 44 (a), annual reports [information] on its assigned amount, in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder;**

(f) **[Is bound by any compliance regime adopted by the COP/MOP;] and**

(g) **[Has submitted the last required periodic national communication.]**

44. A Party *included in Annex I* may:

(a) **Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 after [XX] months [(a specified time**

period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance [...] a reasonable opportunity to identify and rule upon any problems] have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in subparagraphs (a) through (d)[, (f) and (g)] of 43 above, unless the Compliance [...] has found that it has not met one or more of such requirements;

(b) **Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 at an earlier date if the enforcement branch of the Compliance [...] has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in subparagraphs (a) through (d)[, (f) and (g)] of 43 above; and**

(c) **Continue to participate, unless and until the Compliance [...] has found that it has not met one or more of the requirements in subparagraphs (a) through [(e)][(g)] of 43 above. If the Compliance [...] has found that a Party does not meet one or more requirements above, the Party may participate only if and when the Compliance [...] finds that the Party meets such requirements and therefore reinstates its eligibility to participate.**

(Note: Option B has linkages with the decision on a compliance system.)

[Option C (paras 45 and 46):

45. Prior to the start of the first commitment period, the expert review teams established under Article 8 shall review the observance by Parties included in Annex I of the following eligibility criteria for transfers and acquisitions under the provisions of Article 3:

(a) Ratification of the Protocol;

(b) [[Being bound by any compliance regime adopted by the COP/MOP and] not having been excluded from participation in the CDM according to its procedures and mechanisms[, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17];]

(c) [The implementation of a national system for the estimation of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] in accordance with the guidelines set out in decision -/CP.6;]

(d) The establishment of a national registry system to track parts of an assigned amount, certified emission reductions and emission reduction units transferred or acquired under the provisions of Article 3, paragraphs 10, 11 and 12, in accordance with the guidelines set out in decision D/CP.6;

(e) The completeness and accuracy of the base year greenhouse gas emissions inventory and greenhouse gas inventory report to standards [to be] established in a decision of the COP/MOP;

(f) The timely submission, completeness and accuracy of the last available annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(g) The submission of the last required periodic national communication, in accordance with the guidelines in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].]

46. [After the start of the first commitment period, the compliance body shall, [in accordance with the rules of procedure established in decision[13] -/CP.6 and,] based on the information submitted by the expert review teams or by any Party [in accordance with the procedures established in decision -/CP.6,] review and make decisions on the continuing observance of the following eligibility criteria by Parties included in Annex I:

(a) Submission of the annual greenhouse gas inventory and annual greenhouse gas inventory report by the date decided by the COP/MOP;

(b) Completeness and accuracy of the annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(c) Maintenance of the national registry system in accordance with the guidelines contained in decision D/CP.6;

(d) Submission of periodic national communications, in accordance with the guidelines contained in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].]

47. [If a Party included in Annex I emits less than its assigned amount, any CERs it has acquired may be used by that Party in the next commitment period, or transferred to another Annex I Party to be used in the current commitment period. [The acquisition of CERs does not alter the assigned amount for the commitment period or any part of the assigned amount transferable under Article 17.]]

48. [A Party operating under Article 4 [may] [may not] [acquire] [and/or][use] CERs resulting from CDM project activities [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

49. Option 1: **A private or public entity, *including international financial entities and multilateral funds,*** [resident in] [of a] Party included or not included in Annex I **may participate in CDM project activities with the approval of** that ***the*** **Party *in which it is operating or legally resident*, if:**

(a) **The Party** [may, where applicable, use CERs to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3] **[has not been excluded from participation in the CDM];**

(b) ***It*** **[is in compliance]|[*has not been found to be in non-compliance*] with the rules and guidelines established for the CDM [and relevant provisions of the Protocol],** and

[13] The references to 'Decision -/CP.6' are to the decision establishing a compliance system pursuant to Article 18.

(c) The entity is in compliance with guidance provided by the executive board [and its national government].

Option 2: Private and public entities, *including international financial entities and multilateral funds*, may participate in CDM project activities with the approval of the Parties involved.

50. [The CDM involves the participation in CDM project activities of Parties included and Parties not included in Annex I. Parties included in Annex I will fund projects in Parties not included in Annex I which will assist sustainable development. Parties are responsible for the involvement of their private and/or public entities in CDM project activities subject to guidance provided by the executive board.]

51. **Option 1:** [Parties participating in CDM project activities shall be responsible at all stages and in all aspects for project activities in which they are participating and for the involvement of their private and/or public entities.] **The participation of private and/or public entities in CDM project activities does not affect the commitments of Parties included in Annex I under the Protocol and the Convention.** [Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I at the time of approval of the CDM project activity shall be assumed to be the responsibility of the participating Party included in Annex I. [In cases where no Party included in Annex I or entity [resident in] [of] such a Party is involved, the host Party assumes total responsibility for the project.]]

Option 2: A Party that authorizes participation of private and/or public entities [*under the CDM, including in activities mentioned in paragraph 3 (a) of Article 12 and in the acquisition of certified emission reductions*] [in CDM project activities] shall remain responsible for the fulfillment of its obligations under the Protocol and the Convention and shall ensure that such participation is consistent with this annex.

52. **A Party may develop national rules or guidelines, consistent with rules and guidelines established for the CDM, for the participation in CDM project activities of that Party and of entities [resident in][of] or operating in the jurisdiction of that Party. The Party shall publish such national rules and guidelines.**

53. **A Party not included in Annex I participating in the CDM shall:**

(a) **Designate a national authority for CDM to approve** [and submit] **CDM project activities** located in its territory, act as the nodal point for coordinating activities related to accreditation, validation, monitoring and verification;

(b) **[Develop and publish a** [legal] [and institutional][or administrative] **framework, including procedures, for consideration and approval of [validated]** ***CDM*** **project activities [*based on project* design documents];]**

(c) **Publish national guidelines for participation in *CDM* project activities, consistent with the principles, rules, modalities and guidelines established for the CDM;**

(d) Approve each CDM project activity based on a project design document and confirm that it shall assist the host Party in achieving sustainable development;

(e) **Provide a formal letter of approval from the designated national authority *for CDM* to project participants to demonstrate host Party approval of each [validated] *CDM* project activity *it has approved*, including its confirmation that the project activity shall assist the host Party in achieving sustainable development;**

(f) **Cooperate, as appropriate, with project participants in providing access to and/or in generating necessary data for the formulation of baselines;**

(g) **[Maintain *a publicly available*** an **up-to-date list of private and public entities** [resident in] [of] that Party which **it approves for participation in the CDM**. The list shall be made available to the secretariat and the public;]

(h) **[Ensure that private and public entities which it approves for participation in the CDM comply with applicable rules and procedures;]**

(i) **[Report in accordance with appendix C.]**

54. **[A Party included in Annex I participating in the CDM shall:**

(a) **Designate a national authority for CDM to approve CDM project activities;**

(b) **Develop and publish a** [legal and] institutional **framework, including procedures, for consideration and approval of *CDM* project *activities based on project* design documents;**

(c) **Provide *a* formal letters of approval from the designated national authority for CDM to project participants to demonstrate its approval of each [validated] *CDM* project activity it has approved;**

(d) **[Maintain *a publicly accessible*** an **up-to-date list of private and public entities** [resident in] [of] that Party **which it approves for participation in the CDM**. The list shall be made available to the secretariat and the public;]

(e) **[Ensure that private and public entities which it approves for participation in the CDM comply with applicable rules and procedures;]**

(f) **[Report in accordance with appendix C.]]**

55. **[[Issues of non-compliance, *not covered by the compliance system specified in decision* [14] *-/CP.6, including eligibility of a Party, shall be resolved by the executive board of the CDM. Questions with regard to compliance* with the provisions of Article 12 and/or the** principles, modalities, **rules and guidelines established for the CDM , including eligibility requirements in relation to** [Parties [***a Party* or**]] entities ***an entity*, may be raised *by a Party, an operational entity*, [by the review process under Article 8 *in relation to Parties included in Annex I*] *or* [by other means]**[in accordance with the decision [15] -/CP.6]. [Where possible,] such issues of non-compliance, and any disputes arising between Parties, shall be resolved [by the executive board within the framework of the CDM] [in accordance with procedures under Article 18[and 19]].] [With the exception of requirements under paragraphs 42 to 44 that an

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[14] The reference to 'Decision -/CP.6' is to the decision establishing a compliance system pursuant to Article 18.

[15] The reference to 'Decision -/CP.6' is to the decision establishing a compliance system pursuant to Article 18.

Annex 1 Party must meet to [acquire CERs][use CERs to contribute to compliance], issues of non-compliance [with provisions in this decision by operational entities] shall be resolved by the executive board within the framework of the CDM.] They shall be expeditiously resolved.]]

(Note: Should there be a paragraph suggesting consequences in cases where a private or public entity knowingly provided wrong information? What are the consequences for existing CDM project activities in cases of loss of eligibility of a Party not included in Annex I? Can CERs be issued in relation to a CDM project activity where a finding of non-compliance has been made?)

56. [***Where a question of non-compliance has been raised*** instances of such issues of non-compliance or disputes between Parties arising, **CERs *from affected CDM project activities* may continue to be issued [, transferred] and acquired, provided that any such CERs are not used by a Party *included in Annex I* to meet *part of its* its commitments under Article 3.** until the issue of non-compliance is resolved in favour of the Party in question or until the dispute is resolved.]

57. [Issues of non-compliance, in relation to Parties, which extend beyond the CDM shall be addressed in accordance with procedures under Article 18.]

(Note: Paragraphs 56 and 57 may have linkages to the decision on compliance.)

F. Financing

58. **[Public] funding for CDM project activities from Parties included in Annex I shall [be** clearly **additional to**][and][not result in a diversion of] ***the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance (ODA) flows*** [not result in a diversion of] Global Environment Facility (GEF) [[and] [or] other financial commitments] of Parties included in Annex I, *and* official development assistance (ODA) [[and] [or] financing from other systems of cooperation].

59. Option 1: **CDM project activities** [shall] [**may**] **be financed, *individually or jointly*, by Parties included** [and/**or not included**] **in Annex I and** [their private or public entities] [**private or public entities *approved for participation in CDM*** resident in them]. CDM project activities may be financed by such Parties [or entities] individually or jointly or by other sources, including international financial entities and multilateral funds. Each certified project activity in the clean development mechanism must involve the participation both of Parties included in Annex I and Parties not included in Annex I.

Option 2: [Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs to be acquired from the project activities as [sole] return for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction commitments under Article 3 of the Protocol. Parties included in Annex I may involve private and/or public entities in such funding. CDM projects shall be financed by Annex I participants through bilateral agreement between Annex I and non-Annex I participants.]

Option 3: [CDM project activities may be financed by Parties included in Annex I and [their private or public entities] [private or public entities resident in them]. They may also be co-financed by Parties not included in Annex I and [their private or public entities] [private or public entities resident in them] as long as at least one Party included in Annex I or a private or public entity [resident in] [of] such a Party is included. CDM project activities may also be financed by international financial entities and multilateral funds.]

60. [*CDM* Project activities [may] [shall] be financed through a multilateral fund which is established by the COP/MOP and managed by the executive board. The fund may accommodate both public and private investment funds. The CERs generated by project activities so financed shall be allocated to Parties [included in Annex I] in proportion to their contribution to the fund. A clearing house shall facilitate and coordinate, inter alia, the selection of projects and the resource allocation. This market may operate through regional entities accredited by the executive board.]

61. [**The executive board shall** provide information on eligible CDM projects and their financing to Parties included and Parties not included in Annex I and **promote initiatives**, including modalities and procedures for project eligibility, **/to ensure/** ***/aiming at ensuring/*** **that CDM investments take place in Parties that are often marginalized by purely market-based instruments.** Where necessary, [the executive board shall assist in arranging funding for CDM project activities] [a Party not included in Annex I may prepare project proposals and apply to the executive board for financial and technical support]. Such projects shall be opened for funding after validation.]

62. [**The executive board shall operate a CDM equitable distribution fund to provide financial assistance to project activities** where this is necessary **to address imbalances in the regional distribution of CDM project activities.** The fund shall be financed by Parties included in Annex II in accordance with [a formula to be determined by the COP/MOP][the formula set forth in Appendix __] . CERs generated by CDM project activities financed by this fund shall be distributed to Parties included in Annex II in proportion to their contribution. Parties not included in Annex I may, individually or jointly, propose CDM projects to the CDM equitable distribution fund. The executive board shall allocate funds, including grants, to projects in accordance with criteria, taking into account the geographic distribution of existing and planned CDM projects, the comparative needs of regions or countries for assistance in achieving sustainable development, and the contribution of the proposed project to the limitation and reduction of greenhouse gas emissions, as established by the COP/MOP. Allocated funds need not necessarily offset the full cost of a CDM project.]

(Note: The options in old paragraph 52 of FCCC/SB/2000/4 have been represented in the two paragraphs above.)

63. [[x] per cent of the available money shall be allocated to least developed country Parties.]

G. Validation

(Note: Some Parties suggest merging the function of registration with that of validation while suggesting a two step approach where first the designated operational entities determine whether a proposed project activity shall be registered, and, second, the executive board

registers the project activity unless a review of the determination is requested. Those Parties also suggest that new/first-of-a-kind methodologies shall be approved by [the executive board][COP/MOP] in accordance with paragraph 7(g).)

64. Each project activity, as described in a project design document, shall be evaluated by a designated operational entity for being validated as an activity under the CDM, including stipulation of the period during which the Party included in Annex I, funding the project, may use the certified emission reductions accruing from such project activities to contribute to compliance with its commitments under Article 3 on the basis of reductions in emissions, which must be additional to any that would occur in the absence of the certified project activity, calculated on the basis of a baseline for that particular project, defined in terms of GHG emissions which would have occurred in the absence of the project.

65. **Validation is the process of independent evaluation of a project *activity* by a designated operational entity against the requirements of the CDM[. [contained in the UNFCCC CDM reference manual] as defined in appendix B, on the basis of a project design document].** Validation of a project is a prerequisite for the registration of a project activity as a CDM project activity

66. Project participants shall submit to a designated operational entity, under a contractual arrangement, a project design document for validation. The project design document shall contain all information [needed for the validation of the project as a CDM project activity, in accordance with the [UNFCCC CDM reference manual][the requirements set forth in Appendix B] including, *inter alia*, a proposed project-specific or [standardized] [multi-project] baseline and a monitoring plan] [required for the registration of a CDM project activity specified in this decision].

67. Option 1: ***In accordance with provisions on confidentiality contained in paragraph 7(v) and 7(w) and in paragraphs 14 and 15,*** **designated operational entities shall *not disclose*** protect **confidential or proprietary information submitted in a project design document, [, without a written consent of the provider of the information]** ***except as required by national law of the Parties involved or*** [is held in confidence in accordance with **provisions contained in [the UNFCCC CDM reference manual]**[Appendix B]]**. Information used to determine emissions additionality shall not be considered confidential or proprietary. The project design document, with the exception of commercially confidential information, shall be made publicly available.**

Option 2: Except as required by national law, operational entities shall not disclose information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available without a written consent of the provider of the information. Emissions data or other data used to determine emissions additionality shall not be considered confidential.

68. **The designated operational entity, selected by project participants, *and under a contractual arrangement with them,* to [validate] [register] a project activity, shall review the project design document and any supporting documentation to confirm that the following requirements are met:**

(a) **[The project design document has been approved by** [the host Party] **[each Party involved] in the form of a formal letter of approval [which, *in the case of the host Party,* states [how][that] the project assists the host country in achieving sustainable development**, taking into account its economic, environmental and social conditions according to its own priorities and needs and the need to minimize adverse environmental, social and economic effects taking into account existing guidance for sustainable development, as determined in Agenda 21 and the relevant multilateral environmental agreements];]

Option 1:

(a) **[The project participants are eligible to participate in CDM project activities;]**

(b) **[The project activity [type] is eligible under the CDM;]**

(c) [[Objections and/or suggestions] **[Comments] by stakeholders, who are directly affected citizens** of the host country**, and the project participants, have been considered *[in accordance with relevant national requirements]*;]**

(d) Stakeholders may comment on any aspect of the project design document to the project participant, operational entity or Parties involved;

(e) **The project activity has undergone an environmental impact assessment, including social impacts, taking into account criteria for environmentally *safe and* sound technologies as delineated in Agenda 21, Chapter 34.** The project participant shall be responsible for commissioning and financing an independent formal Environmental Impact Assessment (EIA), including social impacts, carried out **in accordance with existing rules, standards and legislation of the host country or, in the absence of these, appropriate international guidelines and good practice**, such as OECD-DAC guidelines on environmental impact assessments;

(f) **[The project activities satisfies the threshold criteria set out in paragraph 84];**

(g) **The baseline complies either:**

(i) ***Approved methodologies specified in this document [, paragraph --] [and [the UNFCCC CDM reference manual];or***

(ii) **With modalities and procedures *for [new][first-of-a-kind] methodology or approved methodologies* specified in this document *[, paragraph --]* [and [the UNFCCC CDM reference manual]**[Appendix B]] The proposed project activity satisfies the baselines criteria set out in paragraph 105;

(h) **/For projects designed to enhance anthropogenic removals by sinks, the project design document shall** ensure that crediting of sink projects reflects real, measurable and long-term benefits in enhancement of removals and/or avoidance of emissions of greenhouse gases. For this purpose, the project design document shall **include:**

(i) **A proposed period of time during which carbon would remain sequestered; *and***

(ii) **Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed.** , for example through modalities for ensuring that any carbon released before the specified time period has elapsed will be made up, or modalities regarding the rate at which CERs are issued over the duration of the project. */*

(i) **The project activity** would provide reduction in ***is expected to reduce anthropogenic* emissions by sources, [or an enhancement of *anthropogenic* removals by sinks] that is additional to any that would occur in the absence of the proposed project activity, and [contribute to]** [would provide] **real, measurable, and long-term benefits related to the mitigation of climate change in accordance with additionality provisions specified in this document [and the UNFCCC CDM reference manual]**;

(j) **Provisions for monitoring, verification and reporting of [relevant] project performance [indicators] are adequate and in accordance with provisions *specified* in this document /, *paragraphs* --] [and [the UNFCCC CDM reference manual]**[Appendix B]] The project design document contains a monitoring plan that satisfies the requirements set out in paragraphs --;

(k) **Uses a crediting period that satisfies the requirements** set out in ***specified* in this document /.paragraph --] [and [the UNFCCC CDM reference manual]**[Appendix B]];

(l) [Public] funding for CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] *the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance (ODA) flows* /GEF [[and] [or] other financial commitments of Parties included in Annex I]. ODA [and] [or] [financing from other systems of cooperation]/;

(m) **[The project conforms to** [any] ***all* other requirements for CDM project activities [contained in this document and [the UNFCCC CDM reference manual]**[Appendix B]].]

(n) The project design document shows evidence of how and when the project participant has consulted local stakeholders, for example through the Environment Impact Assessment (including social impacts) as detailed in paragraph 68(e) above and how due account has been taken of their views.

Option 2:

(a) The project design document contains information [in accordance with the provisions of this decision, including *inter alia*:][required by the annex to appendix B to this decision.]

(i) Information relating to the calculation of the project baseline;

(i) Measures to account for activities occurring as a direct result of the project activity outside the project boundary; and

(ii) Provisions for monitoring, verification and reporting of project performance.

(o) The project design document shows evidence of how and when the project participant has consulted local stakeholders, for example through the Environment Impact Assessment (including social impacts) and how due account has been taken of their views.

69. **The designated operational entity will review the information provided to determine whether it is sufficient to enable a decision regarding whether to register the project activity. If the information is not sufficient, the designated operational entity may request further information from the project participants, as appropriate, and, where appropriate, provide recommendations for the modification of the methodologies used.**

70. **If the designated operational entity determines that the project acitivity uses a** baseline **methodology** or a multi-project baseline **that has not been previously approved** */and therefore contained in the [UNFCCC CDM reference manual]]* by the executive board, or is designed to enhance anthropogenic removals by sinks and uses a methodology for calculating the time period and modalities specified in paragraph 89 (c) that has not been previously approved by the executive board, **it must forward the methodology to the executive board for review in accordance with the provisions of paras 111 bis and ter.** The executive board shall expeditiously review and either approve or not approve any such methodologies in accordance with paragraph 119.

71. If the information provided is sufficient to enable a decision, and relevant elements have been approved in accordance with section G on validation, the operational entity will make a determination as to whether, on the basis of the information provided in paragraph [89], the project activity should be registered.

72. The designated operational entity shall provide the opportunity for comment, within XX days, on elements relating to environmental additionality by [members of the public] [Parties and accredited non-governmental organizations] [resident in the host Party]. **The designated operational entity will make the project design document publicly available, subject to confidentiality provisions in paragraph 67. It shall receive comments from Parties[, stakeholders] and UNFCCC accredited non-governmental organizations on elements relating to environmental additionality as defined in paragraph 85 for /30/ [60] days from the date that the project design document has been made publicly available.**

73. ***[After the deadline for receipt of comments/*** [after [30] [60] days], [following the time period specified in paragraph 72], **the *designated* operational entity will make a determination as to whether, on the basis of the information provided** in paragraph 68, **and**

taking into account the comments received under paragraph 72, **the project activity should be** registered **validated.** The designated operational entity shall make publicly available a summary of comments received and an assessment of how it has taken due account of those comments in its validation report. **If requested to do so by a Party or by a member of the executive board, the operational entity shall make available all comments received.**

74. ***Option 1:*** **[The designated operational entity shall [provide the project participants with a recommendation]** [recommend to the executive board] **that the project be registered as a CDM project activity if it determines that the project design, as documented, conforms with [the requirements for validation]** [baseline and monitoring methodologies and other criteria contained in [the UNFCCC CDM reference manual][Appendix B], or after the proper adjustments, where applicable, regarding methodologies and criteria have been made]].

Option 2: The designated operational entity shall submit to the executive board its registration [decision][determination] on a CDM project, along with the project design document and any comments received, and shall make it publicly available. ***If*** **the designated operational entity *determines that the proposed project activity is valid, it* shall submit to the executive board its validation** decision][**determination**] **on the CDM project activities, along with the project design document, a summary of comments received and a description of how it has taken due account of those comments. It shall make** its ***this*** **validation report publicly available through hard copy and electronic means.**

75. [If the designated operational entity determines that the project design document includes new baseline or monitoring methodologies and if the project participants wish to have these methodologies validated, the operational entity shall assess the new methodologies against the requirements contained in [the UNFCCC CDM reference manual][Appendix B] and, where appropriate, provide the project participants with a recommendation for the inclusion of these new methodologies in [the UNFCCC CDM reference manual][Appendix B].]

76. **The designated operational entity shall inform project participants if it determines that the project design, as documented, does not fulfil the requirements for validation, explaining the reasons for non-acceptance** and, where appropriate, providing recommendations for the modification of the methodologies used. A project activity that is not validated may be reconsidered for validation after appropriate revisions have been made to the project design document.

77. **[Project participants shall submit a validated CDM project activity to** their governments ***the designated national authority of each Party involved*** for approval. **The *designated national authority of each participating Party*** governments of the participating Parties **shall indicate** their ***its approval*** formal acceptance **of the validated project *activity* through a letter** of endorsement from the designated national authority for the CDM ***which, in the case of the host Party, states [how][that] the project assists the host country in achieving sustainable development.*]**

(Note: Subparagraph 68 (a) above provides for government approval prior to validation. If paragraph 77 is retained, there would also be a post-validation government approval.)

(The following paragraphs describe types of CDM project activities.)

78. **[CDM project activities shall**:

(a) **Be considered by the host Party to assist the host Party in achieving sustainable development;**

(b) **Be based on the best available *safe and sound* long-term environmental option, taking into account local and national needs and priorities;**

(c) **Lead to the transfer of /state-of-the-art/[*appropriate*], environmentally safe and sound technology in addition to that required under other provisions of the Convention and the Protocol;**

(d) Be eligible to the CDM if they involve reduction of emissions of greenhouse gases in sector/source categories listed in Annex A of the Protocol and the methodology for estimating anthropogenic emissions by source of all greenhouse gases not controlled by the Montreal Protocol are those accepted by the IPCC and agreed upon by the COP at its third session *(decision 2/CP.3)* or by the COP/MOP at its first session in accordance with paragraph 2 of Article 5;

(e) [Prior to 2008, be included in a positive list of renewable energy, including landfill gas, and energy efficiency technologies, in particular in the transportation sector, to be adopted by the SBSTA no later than at its [X] session;]

(f) **[Give priority to renewable energy, energy efficiency technologies that are at the top end of efficiency practice anywhere, and reducing emissions from [the transportation sector]| all sectors**, without discrimination against any of them.**]**;]

(g) **/Not [support][include] the use of nuclear power;/**

(h) **[Not include activities enhancing anthropogenic or non-anthropogenic removals by sinks of greenhouse gases [until the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached and the COP/MOP decides on the eligibility of such project activities in the CDM][that go against other multilateral environmental agreements or against the principles agreed in Agenda 21 and the United Nations Commission on Sustainable Development];]**

(i) ***[Include* project activities for land use, land use change and forestry**, ***including afforestation and reforestation [and prevention of deforestation, [[conservation and* anthropogenic *enhancements by sinks,]*** that would let obtain CERs, through the procedures of certification, validation and registry, **[for the period between the year 2000 and the beginning of the first commitment period,]** will only then be eligible **if they comply with the conditions established in *decision -/CP.6 on the implementation of* Article 3, *paragraphs 3 [and 4]* of the Kyoto Protocol;/**

(j) **[Give priority to carbon sequestration for the combating of desertification, the conservation of biodiversity and watersheds, and the improvement of land management;]**

(k) **[Not include types of project activities excluded by a decision of the COP/MOP** due to concerns about, *inter alia*, their *additionality*, *their overall environmental*

integrity, methodologies to estimate GHG levels for such projects or their potential to cause negative impacts in relation to the domains covered by other multilateral environmental agreements.]]

79. [CDM project activities shall, at the discretion of the host Party, and to assist with achieving sustainable development, include afforestation and reforestation [and prevention of deforestation][conservation and anthropogenic enhancements by sinks] activities and additional activities in agriculture, land-use change and forestry in line with decision _/CP.6 on the implementation of Article 3, paragraphs 3 and 4, on the basis that:

(a) Methodologies to measure and report on changes in greenhouse gas emissions and carbon stocks resulting from the project activity are available or are being developed;

(b) Project baselines can be determined on a project-by-project or on a multi -project basis;

(c) For land-use, land-use change and forestry projects, baseline determination should address sectoral emission trends at the national or subnational level;

(d) Accounting for project activity involves a determination that changes in greenhouse gas emissions and carbon stock as a result of the project activity are additional to a wit'out-project baseline;

(e) National and/or subnational level leakage that may result from the project activity is addressed in project design;

(f) Potential reversibility o' carbon sequestration resulting from the project activity is addressed in the project design;

(g) The project activity is deemed by the host Party to assist with sustainable development and certified by this Party to this respect.]

(Note: The chapeau of previous paragraph was included in the subbullet of the prior paragraph. The subbullets are reflected in the project design document annexed to appendix B.)

80. [Option 1: [A project activity initiated before the first session of the COP/MOP may only be eligible for validation and registration as a CDM project activity if it [commenced [date][1 January 2000]], *or* [was reported as an activity implemented jointly under the pilot phase], and it meets the criteria and provisions regarding the CDM contained in Article 12, paragraph 10 in this document [and in the [UNFCCC CDM reference manual]]. [Following project validation and registration, resultant anthropogenic reductions in emissions by sources [and/or enhancements of anthropogenic removals by sinks] [from 1 January 2000 onwards] [from the date of the host Party's ratification of the Protocol or from the year 2000, whichever is the later,] will be eligible for retrospective certification and issuance of CERs.]]

Option 2: ***A project activity may only be eligible for registration as a CDM project activity if the resultant reductions in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] commenced after 1 January 2000 or the date of the host Party's ratification of the Protocol, whichever is later, or was reported as an activity implemented jointly under the pilot phase. If a project activity was reported as an***

activity implemented jointly under the pilot phase and is registered as a CDM project activity the anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks] from 1 January 2000 will be eligible for retrospective verification and certification.]

81. **[CDM project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects [which are undertaken for reasons other than climate change]. Several small-scale project activities of the same kind may be bundled so as to be subject to a single transaction without losing their own project identity with respect to requirements for validation, verification and certification.]**

82. **The baseline for a CDM project activity is the** future **scenario** of **describing what future anthropogenic GHG emissions** ***by sources*** **[or anthropogenic removals by sinks** ***[in accordance with decisions of COP/MOP related to Article 3, subparagraphs 3 an 4 f]*** **would be in the absence of the project, [calculated using** [the validated][**an approved** ***or [new][first-of-a-kind]*** **baseline methodology for the** ***CDM*** **project]** ***activity*****. A baseline shall cover emissions from** ***sectors and*** **sources listed in Annex A to the Protocol** ***[***, **as well as deforestation,*** ***]*** **[and enhanced anthropogenic removals by sinks] and shall address all relevant greenhouse gases listed in Annex A to the Protocol.**

(The following paragraphs refer to the determination of additionality.)

Option A (para 83)

83. **A CDM project activity is additional if it achieves:**

(a) **[Emissions additionality.][Climate change mitigation additionality.] Emissions** shall be **are reduced below [or anthropogenic removals by sinks** ***are*** shall be **increased beyond] those that would have occurred in the absence of the** [validated] **registered CDM project [activity**, where the [validated][approved] baseline is defined as the anthropogenic GHG emissions by sources [or anthropogenic removals by sinks] in the absence of the project];

(b) **[Financial additionality. [Public] funding for CDM project activities from Parties included in Annex I shall [be** clearly **additional to]**[and][not result in a diversion of] ***the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance (ODA) flows*** /GEF [[and] [or] other financial commitments of Parties included in Annex I], ***and*** ODA [and] [or] [other systems of cooperation] Therefore funds from ODA and GEF should not be used to finance the acquisition of CERs***/:]***

(c) **[Investment additionality. The value of the CERs** shall **significantly improves the** financial and/or **commercial viability**, as applicable, of the project, or the activity should not be possible to finance in the absence **of the project. Projects which are commercially viable without CERs** should ***can*** **not qualify as CDM projects;]**

(d) The project is not business as usual;

(c) **[Technology additionality. The *environmentally safe and sound* technology used for the project shall be the best [available and practicable for the circumstances of the host Party]** [practicable internationally**].**

Option B (paras 84 to 86)

84. **Reductions of anthropogenic emission *by sources and [enhanced anthropogenic removals by sinks]* resulting from a *CDM* project activity shall be considered additional for purposes of Article 12 (5) (c) if the *CDM* project activity meets the threshold criteria established under paragraph 85 and the emission reductions exceed the approved baseline for the *CDM* project activity.**

(Note: the following two paragraphs establish a new threshold criterion requiring better than average environmental performance for CDM projects, which would replace criteria relating to technology and investment additionality.)

85. **To be eligible as a CDM project *activity*, a proposed project activity must achieve a level of performance with respect to reductions in anthropogenic emissions *by sources* [or enhancement of anthropogenic removals *by sinks*] that is significantly better than average compared with recently undertaken activities or facilities within the reference scenario. This threshold criterion shall be satisfied if:**

(a) **The proposed project activity uses a methodology to demonstrate that it meets the threshold that has been approved by the executive board, and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or**

(b) **The proposed project activity uses an alternative methodology to demonstrate that the project will achieve a level of performance with respect to reductions in anthropogenic emissions *by sources* [or enhancement of anthropogenic removals *by sinks*] that is significantly better than average, provided that the executive board approves the alternative methodology upon submission by the operational entity. Upon approval of the alternative baseline methodology by the executive board, the designated operational entity will determine that the methodology is appropriate to the circumstances of the project activity and has been properly applied.**

86. **The term "reference scenario" means a set of recent and comparable activities or facilities, that are defined in a manner sufficient to demonstrate what would likely have occurred in the relevant sector in the absence of the proposed project activity, taking into account any guidance provided by the executive board. The relevant geographic area for the reference scenario shall normally be defined as the host Party, but, depending on the circumstances, may be defined to encompass a larger or smaller area, taking into account any guidance provided by the executive board.**

87. **The project participants shall** identify and describe barriers (such as technical, economic, financial, institutional, administrative) to the implementation of the project which need to be overcome and **explain why the *CDM* project *activitiy* cannot be considered as the baseline.**

88. [The executive board shall have final responsibility for [determining][reviewing] the additionality of CDM project activities [under the guidance of the COP/MOP, subject to appeal to the COP/MOP or review by the COP/MOP on its own initiative of any decision by the executive board][subject to the decision of the COP/MOP on this matter]. The executive board shall have the authority to review and audit decisions of the designated operational entities and, to the degree they find that project activities would have been carried out anyway in the absence of the CDM, reject them.]

(Note: With regard to paragraph 88, the registration process paragraph gives the executive board the final responsibility for the decision on additionality of the project activity subject to guidance by the COP/MOP.)

(The following paragraphs address the criteria for real, measurable and long-term benefits related to the mitigation of climate change.)

89. [Emission **Anthropogenic reductions of emissions by sources [or enhanced anthropogenic removals by sinks] shall be considered real if the baseline takes** adequate **account of *variations in actual activity levels during the year and is adjusted by leakage. The validated project boundary, defined as*** **all sources of anthropogenic emissions by sources[and/or enhanced anthropogenic removals** of greenhouse gases **by sinks] that are within the control of the project participants and are significant and reasonably attributable to the *CDM* project activity*]. Leakage is defined as the variation of anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] outside the validated project boundary.***] [The baseline should take adequate account of]:

(a) The validated project boundary, defined as the space within which the project is implemented and its anthropogenic emissions reductions by sources [or enhanced anthropogenic removals by sinks] occur, both direct and indirect emissions [for instance those related to changes in electricity consumption] should be integrated;

(b) Leakage due to the project, defined as the increase in anthropogenic emissions by sources[or decrease in anthropogenic removals by sinks] outside the validated project boundary. [Anthropogenic emission reductions by sources [or enhances anthropogenic removals by sinks] outside the validated project boundary which are due to the project activity cannot be credited to the project activity.] Only leakage at the national or subnational level shall be taken into account. Leakage may be of two types:

(i) Market effects: changes in supply/demand equilibrium and/or market prices, of inputs and/or outputs; the project developer should discuss which market boundaries – local, regional, national, global – are the most relevant;

(ii) Activity shifting: in case a project limits a GHG emitting activity and this activity is (partially) shifted elsewhere;

As far as possible relevant indicators allowing for the ex post evaluation of the level of leakage should be defined and monitored.

(a) [Variations in actual activity levels during the year.]

90. **The** emissions reductions of **anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] shall be considered measurable if:**

(a) **The actual anthropogenic GHG emissions by sources [or *actual anthropogenic* removals by sinks] after the project has been implemented can be measured and monitored, in accordance with provisions in this document *and* [the UNFCCC CDM reference manual]**[Appendix B]**;**

(b) **The anthropogenic GHG emissions by sources** [or sink enhancement] **[or *anthropogenic* removals by sinks] baseline is calculated *ex post* using [the registered]** [an approved] **methodology.**

91. [The benefits of a project activity related to the mitigation of climate change shall be considered long-term if the emission reduction persists over an appropriate period of time, taking into account the lifespans of different CDM project activities, and bearing in mind Article 2 of the Convention.]

(The following paragraphs cover modalities for the setting and revision of baselines.)

Option A (paras. 92 to 104)

92. **[The establishment of baselines shall be guided by the principles of reliability, transparency and completeness.]**

93. **[Baselines shall be established in accordance with provisions contained in this document [and in the UNFCCC CDM] reference manual for *the use of approved methodologies or approval of for [new][first-of-a-kind].* Types of baselines considered for the CDM shall include:**

(a) **A project-specific baseline, which establishes the anthropogenic emissions by sources[and/or enhanced anthropogenic removals by sinks] for a specific reference case that represents what would occur in the absence of the project activity [which is unique to the project]. However, the methodology** and some standardised parameters **to calculate the baseline could be applied to other projects if appropriate;**

(b) **A [multi-project] [standardized] baseline for a given project type and specific geographic area, which will use [a performance standard][general methodology] approved by the executive board and be contained in [the UNFCCC CDM reference manual]**[Appendix B].]

94. **The choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality shall be explained in a transparent manner by project participants in the project design document to facilitate project validation and replication.**

95. **[The baseline for a project activity to reduce emissions by an *existing source* should, taking into account the observed trends, represent the lowest of:**

(a) **Existing actual emissions prior to the project;**

(b) **The least-cost** [most reasonable] **technology for the activity** which represents an economically course of action;

(c) Better than average **Current industry practice in the host country or an appropriate region;**

(d) [**The** [**average**][**top X per cent**] **for such an existing source in Annex [I] [II] Parties** if possible].]

96. **[The baseline for a project activity to reduce emissions by a *new source* should, taking into account the observed trends, represent the lowest of:**

(a) **The least-cost technology for such a new source;**

(b) **Current industry practice in the host country or an appropriate region for new sources;**

(c) **The [average][top X per cent] for such a new source in Annex [I] [II] Parties** if possible.**]**

97. [Project design and ***C*alculation of a baseline for a land-use, land-use change and forestry project to reduce anthropogenic emissions by sources and/or enhance anthropogenic removals by sinks** will need to ***shall*** **address:**

(a) **Project duration;**

(b) **Types of baselines *used* (i.e. project-by-project, multi-project);**

(c) **Baseline methodology adopted (*approved or [new][first-of-a-kind]*)**

(d) Issues of **Permanence**

(e) **Leakage;**

(f) [**Environmental**][**Climate change mitigation**] and social **additionality; and**

(g) **The liability procedures in case that the emission are not effectively reduced [or the removals are not kept for an sufficient amount of time].]**

98. [Methodologies and approaches to deal with project design and baselines for land-use, land-use change and forestry projects shall be those approved by [the executive board][the COP/MOP.]

99. [**A** [**standardized**] [**multi-project**] **baseline** [**must be set to**][**shall be** considered as a default value, therefore it shall be ***set conservatively*** conservative in order **to**] **preserve environmental integrity** of the Kyoto Protocol and to deliver an incentive to develop a more specific analysis if appropriate. **It may be set to]...**

[Option 1: the average of Annex [I][II] emissions for such project types.]

Option 2: reasonable better-than-average current industry practice [and trends] for existing or new sources [as well as for anthropogenic removals by sinks], as appropriate. If the analysis delivers a range of values, as an output and if the variability can not be clearly linked to explicative variables (availability and price of fuels, specific energy policies, precise characteristics of output, other local circumstances) **the lowest emission rate** and not the average should ***shall*** **be set as the multi-project baseline.** The level of aggregation (both geographical and sectoral) shall carefully determined according to the type of activity (local or internationally traded product, availability of different process routes, degree of influence of local production conditions).

Option 3: [[x] per cent lower than a comparable validated project-specific baseline].]

100. **[The executive board shall give priority to developing [standardized] [multi-project] baselines for projects below a specified size whose estimated emission reductions are less than AAA tonnes per year or BBB tonnes over their crediting period.]**

101. **[Any project whose estimated emission reductions exceed CCC tonnes per year or DDD tonnes over its crediting period shall use a project-specific baseline.]**

102. **[Relevant national policies and circumstances, including, inter alia, sectoral reform initiatives, local fuel availability, [trends in land use and land-use change,] power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline.]**

103. **[The baseline shall ensure that projects do not benefit from national policies [which do not contribute to the ultimate goal of the Convention] [and practices which encourage activities that lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur].** On the other hand, methodologies for baseline setting shall not discourage policies contributing to the ultimate objection of the Convention.]

(Note: Parties may wish to consider whether and how existing national legislation and regulation should be reflected in the determination of baselines.)

104. [For least developed country Parties, ["development-benefit-of-the-doubt"] [the least cost option] may be considered as the baseline, even if that option is not bankable, to create CERs to be valued and make the CDM project bankable.]

Option B (paras. 105 to 106)

105. **A proposed project activity must use a baseline that reasonably represents the emissions or removals that would occur in the absence of the proposed project activity in accordance with paragraph 106 below.**

106. **A baseline shall be deemed to reasonably represent the emissions or removals that would occur in the absence of the proposed project activity only if it is derived using:**

(a) **A baseline methodology that has been approved by the executive board and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or**

(b) **An alternative baseline methodology, provided that the executive approves the methodology upon submission by the designated operational entity and following approval of the alternative methodology by the executive board, and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied.**

(The following paragraphs refer to the crediting period for a CDM project activity.)

107. **Option 1: Project participants must select a crediting period for a proposed project activity using one of the following alternative approaches:**

(a) **A single crediting period, after which the project activity is not eligible to further accrue certified emission reductions. The baseline remains fixed throughout the crediting period. The crediting period is defined as the shorter of:**

(i) **The expected operational life of the project; or**

(ii) **15 years [in the case of emission reduction project activities], [and [X] years in the case of project activities involving land-use change and forestry]; or**

(b) **A crediting period** that is renewed every ***of* [5] years *may be renewable* by the project participant, provided that the designated operational entity determines that the project activity continues to satisfy the threshold and baseline criteria based on updated data.**

Option 2: The crediting period for a project is the period of validity of the validated baseline defined as the shortest of (a) the operational life of the project; (b) [5] [x] years; and (c) the period proposed by the project participants. The crediting period of a project may be extended by a validated review of the baseline. Factors in baseline determination which are subject to review at the end of the crediting period should be identified at the outset.

108. Option 1: [During a crediting period the [validated][approved] *registered* baseline methodology of a project shall not be subject to revision except if requested by a designated operational entity verifying the emission reductions.]

Option 2: **Once *a baseline methodology for a CDM project activity has been* registered,** a baseline ***it* shall remain in effect for the crediting period *for that*** of the **project *activity*. If the operational life of *a*** the ***CDM* project *activity* exceeds the crediting period *of that CDM project activity*, a new baseline shall be validated at the end of each crediting period upon request of project participants.**

Option 3: The baseline of a project should be revised and adjusted if:

(a) New and more accurate information on the determining factors of the project becomes available;

(a) A major natural disturbance occurs in the area of the project, thus affecting substantially the baseline assumptions.

109. **[A project-specific or [standardized] [multi-project] baseline methodology[, contained in the [UNFCCC] CDM reference manual,] may be revised at any time by *a decision of* [the executive board][the COP/MOP]. Any revision shall only be relevant to baselines [validated][approved] subsequent to the** time ***date*** **of revision and therefore shall not affect existing registered projects *activities* during their crediting periods.]**

H. Registration

(Note: Some Parties suggest merging the function of registration with that of validation.)

110. **[Registration is the formal** [approval by each Party involved and thereafter the formal] **[acceptance]** [acknowledgement] **by the executive board of a validated project as a CDM project activity. Registration is a prerequisite for the verification, certification and issuance of CERs related to that project activity.]**

Option A (para 111 to 114)

111. **[Project participants] [Designated operational entities] shall submit to the executive board a request for registration including the validated project design document and the [recommendation][determination] by the designated operational entity including a summary of the comments received and how the designated operational entity has taken due account of these comments.**

111 bis **[The executive board shall [expeditiously][*within x months*] review proposed new methodologies for [thresholds,]calculating baselines[, sinks crediting] and proposed new methodologies for ensuring that crediting for anthropogenic removals by sinks project activities reflect real, measurable and long-term benefits in enhancement of anthropogenic removals *by sinks* and/or avoidance of emissions of greenhouse gases prior to the registration of a project *activity* using such methodology. Whenever the executive board approves such a methodology, it shall include** it ***the methodology*** **in the [*UNFCCC CDM* reference manual] [along with any relevant guidance related to its application to other projects with similar characteristics]].**

111 ter **Methodologies that have been approved by the executive board*[, and contained in the UNFCCC CDM reference manual,]* may be used by project participants without further executive board review provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity.**

112. The executive board shall:

(a) [At the request of the project participants], register validated CDM project

activities by publishing the request for registration and assigning a unique identification number to the project activity as defined in [decision D/CP.6], unless objections are raised in accordance with the following provisions:

(i) [Objections may be submitted within YY days of the publication of the registration request and the validated project design document by the [executive board];]

(ii) [The [executive board] shall decide on the registration of the project within ZZ days of the deadline for the submission of objections;]

(iii) [The [executive board] shall inform the project participants of its decision and provide reasons if the registration request is declined or modified;]

(iv) [Objections may only be submitted by Parties, /stakeholders/ [accredited observers to the UNFCCC] [and legal entities];]

(Note: This is in addition to stakeholder objections being considered in the project design document and validation process.)

(a) [In the case of new baseline or monitoring methodologies submitted by project participants with a recommendation of a designated operational entity,]

(i) [Publish such a request together with the recommendation of the designated operational entity and allow YY days for public comment;]

(ii) [Accept, accept with modifications, or reject the proposed new methodology, based on the information received and any independent research it deems appropriate, within XX days of the closing date for public comments;]

(iii) [Inform the project participants of its decision and provide reasons if the registration request is declined or modified;]

(iv) [Register the project and assign an identification number to the project as defined in [decision D/CP.6].]

(b) [Revise the [UNFCCC CDM reference manual] to reflect [its decisions][decisions by the COP, in the initial phase of the CDM, and COP/MOP decisions thereafter].]

113. **The registration** [decision] [determination] ***by the executive board*** **shall be** considered **deemed final** after **/30/ [60] days** ***after*** from **the date of receipt by the executive board of the [request]**[determination] **for registration, unless a Party involved in the project activity, or at least [x]** Parties on ***members of*** **the executive board, *or at least [y] Parties* request a review of *the proposed CDM project activity*** registration [decision][determination] by the executive board. **Such a request shall be made in accordance with the following provisions:**

(a) **Requests for reviews /may relate to any aspect of the project design document/ /shall be limited to issues associated with the applicability of *[the threshold, /*the *project-specific*** baseline methodology **or [multi-project]**[standardized] **baseline *methodology* to the project, the adequacy of the monitoring plan; other issues relating to** environmental

additionality ***and leakage [and*** **in the case of sequestration projects, adequacy of methodologies pursuant to paragraph 68 (h)*****/]*****;**

(b) **Upon receipt of a request for review in accordance with this paragraph, the executive board shall** ***[decide whether the request has merit [in accordance with the provisions specified in this document [and the UNFCCC CDM reference manual]]. If the executive decides the request lacks merit it shall take a decision on registration no later than the [second] meeting following its receipt of a request for review. If the executive board decides that the request has merit it shall]*** **perform a review in accordance with this paragraph and** determine ***decide*** **whether the proposed registration should be approved.**

(c) **The executive board shall complete its review** expeditiously, and in any case **no later than the [second] meeting following its receipt of a request for review;**

(d) **The executive board shall inform the project participants of its** determination ***decision*****, and make its** determination ***decision*** **and the reasons for it** ***public*** publicly available.

Option B (paras 114 to 117)

114. *(Note: This paragraph was moved to and merged with paragraph 72.)*

115. *(Note: This paragraph was moved to and merged with paragraph 73.)*

116. *(Note: Already reflected in Option 2 of paragraph 74.)*

117. *(Note: This paragraph was moved to and merged with Option 2 of paragraph 74.)*

118. *(Note: This paragraph was moved to the end of this section to paragraph* 120 bis.*)*

119. *(Note: This paragraph was moved after paragraph 111.)*

120. [The executive board shall maintain a reference manual for the purpose of facilitating and enhancing transparency in the development of [thresholds], baselines, [sink crediting,] monitoring and other relevant project elements, in accordance with appendix B. The reference manual shall include approved [thresholds], [sink crediting,] baseline methodologies and multi-project baselines approved in accordance with Article xx, and such other guidance that the executive board [deems appropriate][will facilitate and enhance transparency in the development of projects].]

120 bis[**A** ***proposed*** **project** ***activity*** **that is not accepted may be reconsidered for validation and subsequent registration. After appropriate revisions,** have been made to the project design document, ***the revised project activity, to be registered as a CDM project activity, has to meet all the procedures and requirements for validation and registration, including those related to public comments*** provided that procedures related to public comments have been observed.]

I. Monitoring

121. **Project participants shall propose, as part of the project design document, a monitoring plan** to be used for the purpose of demonstrating anthropogenic reduction of

emissions by sources /or enhanced anthropogenic removals by sinks/ from the project. The monitoring plan ***that*** **shall provide for:**

(a) **The collection and archiving of all relevant data necessary for estimating or measuring *anthropogenic* emissions *by source* /or *anthropogenic* removals *by sinks*/ of greenhouse gases occurring within the project boundary during the crediting lifetime;**

(b) ***The collection and archiving of all relevant data necessary for determining baseline anthropogenic emissions by sources /and/or enhanced anthropogenic removals by sinks/ within the project boundary during the crediting lifetime;***

(c) **An identification of all potential sources of *enhanced anthropogenic* greenhouse gas emissions *by sources* and *enhanced anthropogenic* removals *by sinks* outside the project boundary/and within the relevant geographic area within the reference scenario// that are significant and/ reasonably attributable to the project activity;**

(d) ***The collection and archiving of all relevant data necessary to estimate all measurable changes of anthropogenic greenhouse gas emissions by sources and enhanced anthropogenic removals by sinks identified in the subparagraph (c) above;*** Methodologies to monitor or estimate all measurable changes in emissions and removals that are significant and reasonably attributable to the project activity from sources outside the project boundary and within the relevant geographic area within the reference scenario, taking into account any guidance provided by the executive board.

(e) **[The collection and archiving of all relevant data necessary to monitor other relevant impacts of the project (environmental, economic, social and cultural impacts);]**

(f) **Quality assurance and control procedures;**

(g) ***Procedures for* periodic calculation of *anthropogenic emission reductions by sources and /enhanced anthropogenic removals by sinks/ of greenhouse gases by the proposed CDM project activity*** occurring within the project boundary in accordance with an approved monitoring methodology specified in the project design document;

(h) **Documentation of all steps involved in the calculations referred to in the subparagraph (g) above;**

122. /A monitoring methodology is approved for purposes of paragraph 121 (g) if//***A monitoring plan should be based on a monitoring methodology that/:***

(a) It **Has been previously approved by the executive board, provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity and has been properly applied;**

(b) It **Is an alternative methodology proposed for application to a particular project activity, provided that:**

(i) **The designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; and**

(ii) **The executive board approves the methodology upon registration *because the methodology* is *considered* sufficiently rigorous to provide an accurate and reasonably certain calculation of emissions or removals or, where the methodology is not sufficiently rigorous, provide a conservative estimate of emissions or removals that gives reasonable assurance that emissions are not underestimated and removals by sinks are not overestimated;**submission by the designated operational entity; following approval by the executive board the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied.

(c) [The A [new][first-of-a-type] monitoring methodology and its relationship with the generation of CERs will be approved by the executive board as part of its decision to register the proposed CDM project activity. This approved methodology will subsequently be used by project participants in their project proposal document. Project proponents that choose not to use the approved methodology must provide sufficient information to support the use of an alternative monitoring methodology which will be subject to the executive board approval.]

(d) ***Reflects good monitoring practice, i.e. performance at least equivalent to the most cost-effective commercially applied monitoring methodologies appropriate to the circumstances***

123. **Project participants shall ensure *that*** the implementation of **the** [registered] **monitoring plan contained in the** validated ***registered*** **project design document** [registered by the executive board] ***is implemented.*** Such a systematic surveillance and measurement of aspects related to the implementation and the performance of the project shall be sufficient to enable measurement and calculation of *anthropogenic emission reductions by sources and [enhanced anthropogenic removals by sinks]*. [Methodologies for monitoring shall be standardized.] Project participants shall report all data collected to a designated operational entity *contracted to verify anthropogenic emission reductions by sources and [enhanced anthropogenic removals by sinks]* for verification purposes.

124. **A third party may provide assistance to the project participants in implementing the registered monitoring plan. Any such third party shall operate under the responsibility of the project participants and shall be independent of the designated operational entities involved in the project validation, verification or certification**.

125. Monitoring shall include:

(a) Greenhouse gas anthropogenic emissions by sources[and/or anthropogenic removals by sinks] associated with the *registered* CDM project activity;

(b) Parameters related to the determination of baseline anthropogenic emissions by sources [and/or anthropogenic removals by sinks]. [This may include monitoring parameters outside the project boundaries to capture leakage effects [, at the national or subnational level]];

(c) [Other relevant impacts of the project (environmental, economic, social and cultural impacts).]

126. **Revisions to the monitoring plan require justification by project participants and shall be validated by a designated operational entity** [subject to any guidance by the executive board]. Proposed changes to monitoring practices ***and* shall be approved by a *decision of the executive board*** designated operating entity [subject to guidance by the executive board].

(The following paragraphs refer to quality criteria for monitoring methodologies.)

127. Monitoring under the CDM shall be accurate, consistent, comparable, complete, transparent and valid and shall be based on good practice. In this context:

Accuracy is a relative measure of the exactness with which the true value of a performance indicator can be monitored or determined. Estimates and monitored performance indicators should be accurate in the sense that they are systematically neither over nor under their true values, as far as can be judged, and that uncertainties are reduced as far as practicable;

Consistency means that the monitoring plan is internally consistent in all its elements and its performance indicators over time. Monitoring is consistent if the same performance indicators are used and the same assumptions and methodologies are applied to monitor these indicators over time. The requirement for consistency should not inhibit changes to monitoring practices that improve accuracy and/or completeness;

Comparability means that estimates of anthropogenic emissions by sources [and anthropogenic removals by sinks] should be comparable between the baseline and the project, and across projects. [For this purpose, project participants should use methodologies and formats listed in [the [UNFCCC] CDM reference manual][Appendix B] *or obtain approval from the executive board for a first-of-its-kind methodology or format*;]

Completeness means that monitoring covers, for the project baseline and actual anthropogenic emissions by sources[and/or anthropogenic removals by sinks], all relevant GHGs and sector and source categories, [as well as sinks], listed in Annex A to the Protocol. Completeness also means covering all relevant performance indicators both within and outside the project boundary. [Monitoring operations should also provide a sound basis for assessing the contribution of the activity in achieving sustainable development;]

Transparency means that assumptions, formulae, methodologies and data sources are clearly explained and documented to facilitate consistent and replicable monitoring activities as

well as assessment of the reported information. The transparency of monitoring data and methodologies is fundamental to the credible verification and subsequent certification of achieved results and the issuance of CERs;

Validity means that performance indicators give a real measure of achieved results. Monitoring shall therefore be based on indicators that will give an observable and real picture of project performance;

Good practice means performance at least equivalent to the most cost-effective commercially applied monitoring methodologies. These monitoring methodologies shall be listed in [the UNFCCC CDM reference manual][Appendix B] and shall be updated [continuously] [periodically] [by the COP/MOP] to take into account changes in technologies [and best practices].

128. The criteria for monitoring should take into account resource and technical constraints in developing countries, whilst still being rigorous enough to ensure that the objectives of the Convention have been met. [Participant Parties included in Annex I should provide the necessary financing and technical support to the participant Parties not included in Annex I for project monitoring.]

129. **The implementation of the registered monitoring plan, and its** validated ***approved*** **revisions as applicable, shall be a condition for verification, certification and the issuance of CERs.**

J. Verification

130. **Verification is the periodic independent review and *ex post* determination by a designated operational entity of the monitored** emission ***anthropogenic emission reductions by sources and [enhanced anthropogenic removals by sinks]*** **that have occurred as a result of a registered project activity during the verification period.**

131. **The designated operational entity**, [selected ***contracted*** **by the project participants]** [assigned by the executive board], **performing the verification shall:**

(a) **Determine whether the project documentation provided is in accordance with the requirements of the registered project design document *and relevant provisions specified in this document [and the UNFCCC CDM reference manual]*;**

(b) **Conduct on-site inspections, as appropriate, which may comprise, *inter alia*, a review of performance records, interviews with project participants and stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;**

(c) **If appropriate, use additional data from other sources;**

(d) **Review monitoring results and determine the reduction in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] based on the data and information used in (a) and obtained through (b) and/or (c), as appropriate,**

using calculation procedures consistent with those contained in the registered project design documents;

(e) In reviewing project documentation and conducting, as deemed appropriate, on-site inspections, the designated operational entity will **Verify that the monitoring methodologies for estimation of reduced anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] have been applied correctly and its documentation is complete and transparent;**

(f) **Identify any concerns related to conformity of the actual project and its operation with the registered project design document. The designated operational entity shall inform the project participants of any such concerns. Project participants may address the concerns and supply any additional information;**

(g) **Recommend to the project participants appropriate changes to the monitoring methodology;**

(h) **Provide a verification report to the project participants, the Parties involved[**, the designated operational entity responsible for the validation of the project] **and the executive board.** The [executive board] shall publish the report. ***The report shall be made available in accordance with decision D/CP.6.***

132. *(Note: This paragraph and its subparagraphs are reflected in paragraph 131 above.)*

133. Option 1: [[Except as provided for sequestration projects.] **The emission reduction by a CDM project activity during a given year is the *ex post* calculation of baseline emissions less the actual anthropogenic emissions by sources less leakage [or actual anthropogenic removals by sinks less baseline removals by sinks less leakage] [and/or carbon stock] due to the CDM project activity during that year.**]

Option 2: Project participants shall submit a request to the operational entity for certification of accrued *anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks]* associated with a project activity over a specified time period. Project participants shall include as part of this request calculation and documentation of the following:

(a) Emissions [and removals] that are significant and reasonably attributable to the project activity within the project boundary;

(b) Emissions [and removals] that are significant and reasonably attributable to the project activity outside the project boundary and within the geographic area of the reference scenario;

(c) The total emissions [and removals] from a) and b) above;

(d) Comparison of total emissions [and removals] within the geographic area of the reference scenario to the appropriate baseline; and,

(e) Any additional factor required by the executive board to account for changes in emissions [and removals] that are significant and reasonably attributable to the project activity but outside the geographic area of the reference scenario.

K. Certification

(Note: Some Parties suggest merging the function of certification with that of verification.)

134. **Certification is the written assurance by a designated operational entity [that has verified the project] *contracted by the project participants* that, during a specific time-period, a project activity achieved,** or will achieve, with an acceptable degree of certainty, **its *anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks]* and other** necessary **performance indicators, as verified.**

135. [Project participants shall submit a request for certification for a specific time-period to a designated operational entity, accompanied by, *inter alia*, the registered project design document and verification reports for the specific period.]

136. **The designated operational entity, *contracted by the project participants*, shall, based on a verification report *[by another designated operational entity]*, certify in writing that, during the specific time-period, the project activity achieved** [or is expected to achieve] **reductions *of* anthropogenic *emissions by sources*[and/or anthropogenic removals by sinks], as verified. It shall inform the project participants [and the executive board] of its [decision] [recommendation] in writing immediately upon completion of the certification process. The decision *shall be published* in accordance with decision D/CP.6.**

137. **Emission reductions from a registered baseline resulting from a registered project activity shall be certified, after they have occurred, only if**:

(a) [[The project participants apply] [A project participant applies] for the certification of the emission reductions resulting from the project for a specific time-period;]

(b) [The emission reductions [and other performance indicators] have been verified and a verification report has been submitted;]

(c) **All Parties [and private or public entities] involved were eligible to participate in the CDM during the verification period.**

L. Issuance of certified emission reductions

(Note: Some Parties have suggested that issues of fraud, malfeasance or incompetence of operating entities that come to light at this stage may need to be addressed.)

138. **[The CERs are [not] transferable.]** [Once issued, CERs may be transferred to another Annex I Party or entity, to comply with their specific emissions reduction commitments]

139. **[The CERs are [not] fungible with assigned amount for Parties included in Annex I.** The CERs and the assigned amount are unlike concepts. The CERs and assigned amount cannot mix or assimilate with each other.][Parties may exchange ERUs, CERs and [AAUs][PAAs], in

accordance with rules and procedures established by the COP/MOP which are to ensure their effective environmental equivalence.]

Option A (paras 140 to 142):

140. [Project participants (or the designated operational entities on behalf of them) shall submit to the executive board a request for issuance of CERs, accompanied by a notification of their certification by a designated operational entity.]

141. The executive board shall [, provided that no objection is raised by a Party involved in the CDM project activity] [accredited observers to the UNFCCC] [and private and/or public entities]:

(a) Issue CERs in respect of the [anthropogenic emission reductions][reductions of anthropogenic emissions by sources][and/or enhancement of anthropogenic removals by sinks] resulting from a registered project for a specific time-period;

(b) Allocate unique serial numbers to CERs;

(c) Allocate CERs to the registry accounts of [project participants] [Parties included [and not included] in Annex I], as specified by [project participants] [the Parties involved], less the share of proceeds [to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[, determined and allocated in accordance with appendix D].]

142. [CERs can only be used for compliance and cannot be [banked], traded or transferred to another Party.] [CERs can be used by one Annex B Party for compliance in the current commitment period or in subsequent commitment periods, or can be transferred to another Annex B Party for compliance with their specific emissions limitation commitments.]

Option B (para. 143):

143. **Upon receipt of a** final ***certification*** **report** ***from a designated operational entity*** **confirming the certification of a quantity of CERs based on a *CDM* project *activity*, the system administrator working under the authority of the executive board *shall*** will

(a) **Assign each CER a unique serial number;**

(b) ***Assess, in accordance with appendix D, and collect the share of proceeds to cover administrative costs and to assist in meeting costs of adaptation in accordance with Article 12.8 and transfer them to the appropriate accounts;***

(c) Transfer CERs into accounts of appropriate registries for project participants [from Parties included in Annex I] (according to their distribution agreement reflected in the certification report); ***Transfer CERs to the registry accounts of project participants, as specified by the distribution agreement approved by the Parties involved.***

(d) Transfer CERs into the registry where the share of proceeds will be held.

Appendix X (to the annex to decision B/CP.6 on a clean development mechanism)

/"Part of"/Supplementarity

Limits on acquisitions

1. Option 1: No determination of the term "part of".

Option 2*1*: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Article 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 3*2* (i): Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 3 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 3 (iii): The overall use of CERs by Parties included in Annex I to contribute to compliance under Article 3 should be limited to 25 per cent of the aggregated assigned amount.

Option 4*3*: CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments. Developed country Parties' participation in CDM project activities should be contingent on [satisfaction of prescribed domestic effort] [achieving a level of 40 per cent through domestic actions] **in fulfilment of commitments under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms**

pursuant to Articles 6, 12 and 17 is required. The ceiling for the acquisition of CERs by Parties included in Annex I shall be fixed at 35 per cent. Commensurate non-compliance processes must be prescribed.

Option 5: Limits may be levied in the short term on the amount of CERs used by Parties included in Annex I to meet their limitation and reduction commitments but, in the long term, CERs may be freely utilized.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

3. **[Any limitations on** the ***net*** **transfers or acquisitions of CERs under Article 12 shall apply to each individual Party operating under Article 4.]**

4. **[Re-allocations under Article 4 shall count against the limitations referred to in paragraph -- above.]/**

Appendix A (to the annex to decision B/CP.6 on a clean development mechanism)

Standards and procedures for the accreditation of operational entities

(Note: Further consideration of standards beyond those contained in this appendix may be required.)

1. **The accreditation standards shall address, *inter alia*,:**

(a) **Good expertise on certification procedures;**

(b) **Implementation of a process system to demonstrate the application of certification procedures;**

(c) **A system for the control of all documentation relating to validation, verification and certification;**

(d) **A professional code of practice, appeal and complaints procedures;**

(e) **Relevant expertise and competence of a designated operational entity;**

(f) **Independence and absence of conflict of interest of a designated operational entity;**

(g) **[Insurance coverage of a designated operational entity].**

2. **An operational entity shall meet the following organizational requirements:**

(a) **Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status to the [accreditation body];**

(b) **Employ a sufficient number of persons having the necessary competence to perform relevant [validation][registration], verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;**

(c) **Have the financial stability and resources required for its activities;**

(d) **Have sufficient arrangements to cover legal and financial liabilities arising from its activities;**

(e) **Have documented internal procedures for carrying out its functions, including among others, procedures for the allocation of responsibility within the organization and procedures for handling complaints; these procedures shall be publicly available;**

(f) Have the necessary expertise to carry out the functions specified in this and relevant decisions by [COP] [COP/MOP], in particular have sufficient knowledge and understanding of:

(i) The rules, modalities, procedures and guidelines for the operation of the CDM, relevant decisions of the COP and COP/MOP, and relevant guidance issued by the executive board;

(ii) Environmental issues relevant to [validation][registration], verification and certification of CDM projects;

(iii) The technical aspects of CDM activity relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions and other environmental impacts;

(iv) Relevant environmental auditing requirements and methodologies;

(v) [Sustainable development criteria and implementation];

(vi) Methodologies for accounting of anthropogenic GHG emissions by sources [and/or enhanced anthropogenic removals by sinks];

(vii) ...

(b) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including management reviews, and decisions on [validation][registration], verification and certification. The applicant operational entity shall make available to the [accreditation body]:

(i) The names, qualifications, experience and terms of reference of the senior executive, board members, senior officers and other personnel;

(ii) A structure chart showing lines of authority, responsibility and allocation of functions stemming from the senior executive;

(iii) Its policy and procedures for conducting management reviews;

(iv) Administrative procedures including documents control;

(v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for validation, verification and certification functions, and for monitoring their performance;

(vi) Its procedures for handling complaints, appeals and disputes.

3. Not having any pending process for malpractice, fraud and/or others incompatible with its functions as a designated operational entity.

4. **An applicant operational entity shall meet the following operational requirements:**

(a) **Work in a credible, independent, non-discriminatory and transparent manner** [under the supervision of a national authority]**[*complying with applicable national law*] which shall include:**

(i) **Documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations. This structure shall enable the meaningful participation of all stakeholders significantly concerned in the development of the CDM project;**

(ii) **[If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, project development or project financing of any CDM project, the applicant operational entity shall:**

- **Make a declaration to the [accreditation body] of all the organization's actual and potential CDM activities, indicating which part of the organization is involved and in which particular CDM activities;**

- **Clearly define to the [accreditation body] the links with other parts of the organization,** clearly **demonstrating that no conflicts of interest exist;**

- **Demonstrate** clearly **to the [accreditation body] that no actual or potential conflict of interest exists between its functions as an operational entity and any other functions that it may have, and shall demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all potential sources of conflict of interest, whether they arise from within the operational entity or from the activities of related bodies;**

- **Demonstrate to the [accreditation body] that it, together with its senior executive and staff, is free of any commercial, financial and other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;**

- **[Demonstrate to the [accreditation body] that it has policies and procedures for the resolution of complaints, appeals and disputes received from organizations, including NGOs, or other parties about the handling of its activities;]]**

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants and follow any procedures in this regard established by the COP/MOP. Except as required in the applicable procedures contained in COP/MOP decisions or by law, it shall not disclose information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the

information. Emissions data or other data used to determine emissions additionality shall not be considered confidential;

(c) In cases where the operational entity subcontracts work on [validation] [registration], verification or certification to an external body or person, the operational entity shall:

(i) **Take full responsibility for such subcontracted work and maintain its responsibility for granting or withdrawing validation/certification;**

(ii) **Draw up a properly documented agreement covering the arrangements;**

(iii) **Ensure that the subcontracted body or person is competent and complies with applicable provisions of this decision, in particular regarding confidentiality and conflict of interest;**

(iv) **Report its use of the subcontractor to the executive board.**

Appendix B (to the annex to decision B/CP.6 on a clean development mechanism)

[[UNFCCC] clean development mechanism reference manual]

1. Option 1: [The [UNFCCC] CDM reference manual shall reflect contain the provisions and guidelines contained in this document and be updated continuously by the executive board reflecting decisions by the COP/MOP [and the executive board]. It shall take into account:

(a) Approval of new and revised baselines and monitoring methodologies in response to project submissions and recommendations of the operational entities input by other organisations;

(b) [Research and development by the executive board drawing upon organizations with relevant expertise as appropriate;]

(c) Input from other sources.]

Option 2: This Appendix B and its annex contain provisions that are intended to facilitate the administration of the "Modalities and procedures for a clean development mechanism" set forth in the Annex to Decision -/[CMP.1].

2. [**The executive board shall** publish ***maintain and make available in electronic and printed forms*** **a [UNFCCC] CDM reference manual** ***based on decisions of the COP/MOP and the executive board related to, inter alia,*** which shall include][The executive board may periodically recommend to the COP/MOP decisions concerning]:

Option A (sub paragraph (a) to (f))

(a) ***Baseline methodologies:***

(i) ***COP/MOP requirements for [new][first-of-a-kind] baseline methodologies;***

(ii) ***Approved baseline methodologies;***

(b) ***Eligibility criteria:***

(i) ***Additionality***
[Approved thresholds];

(ii) ***[Types of projects];***

(iii) ***Other;***

(c) ***Monitoring:***

(i) ***COP/MOP requirements for [new][first-of-a-kind] monitoring methodologies;***

(ii) ***Approved monitoring methodologies;***

(d) ***Project design document (see also the annex to this appendix B);***

(e) ***Requirements for an [accreditation body];***

(f) ***Requirements for designated operational entities.***

Option B (sub paragraph (a) to (j))

(a) The information required to be provided to support a project-specific baseline calculation methodology;

(b) Information on each approved methodologies for a [standardized] [multi-project] baseline or baseline methodology, including:

(i) The criteria a project shall meet to be eligible to use the [standardized] [multi-project] baseline (e.g. technology, sector, geographic area), as appropriate;

(ii) The crediting period;

(iii) The approved baseline calculation methodology;

(iv) How the baseline methodology deals with potential project boundary issues, including, if [available, standard leakage correction factors and the rules for their application][applicable, provision for measuring, addressing and/or accounting for changes to projected emissions reductions as a result of leakage];

(c) The format of the project design document (see annex to this appendix);

(d) (c) bis How the CDM project activity is additional;

(e) Any other information needed to apply the approved baseline methodology;

(f) [Monitoring guidelines for different project types and good practice standards for each monitoring methodology;]

(g) /Approved methodologies for determining project duration and for modalities to address the possibility that some or all of the carbon sequestered through a project is released, pursuant to paragraph --;/

(h) [Unified reporting formats per project type, with specified data and reporting requirements, as necessary;]

(i) [Criteria to determine whether a project assists Parties not included in Annex I in achieving sustainable development;]

(j) [[Guidance on how to use sensitivity analysis;]] and

(k) Best practice examples for the determination of baselines, per project type.

3. [Project developers and *designated* operational entities shall use the guidelines for baseline setting, contained in the [UNFCCC reference manual], in accordance with decision [B/CP 6]. In accordance with the guidelines, project developers and *designated* operational

entities may use different methods included in the guidelines, giving priority to those methods which are believed to produce the most accurate estimates, depending on the data available. In accordance with the guidelines, project developers can also use different methodologies which they consider better able to reflect the project situation provided that these methodologies are compatible with the guidelines and are well documented.]

Annex to appendix B ([UNFCCC CDM reference manual])

Project design document

1. A project activity to be [validated] [registered] shall be described in detail in a project design document approved by [each Party involved] [the host Party] and submitted to a designated operational entity.

Note: Paragraph 1 merged with paragraph 3.

2. The part of the project design document relating to the baseline shall provide the project [validator][registrar] with a complete understanding of the chosen baseline.

3. The content and structure of the project design document ***A project activity shall be described in detail in a project design document and*** **shall include the following:**

(a) **A letter from the designated national authority for CDM** in [each Party involved] [the host Party] **indicating formal acceptance of the proposed project** ***activity***, including in relation to aspects of sustainable development ***which, in the case of the host Party, states [how][that] the project assists the host country in achieving sustainable development***;

(b) **A short objective non-technical summary of the purpose and context of the project;**

(c) **A description of the project:**

(i) **Project purpose;**

(ii) **[Policy and institutional context:**

- ***Reference to the*** **policy standards of the host country for the sectors involved;**
- ***Reference to the*** **the host country's legal framework and its degree of implementation;**
- **The social actors involved in the design and execution of projects;]**

(iii) **Technical description of the project and a description of the transfer of technology, including viability of technological choices;**

(iv) **Information regarding project location and its region;**

(v) ***Brief description of the*** **project boundaries (geo-referenced);**

(vi) **Key parameters affecting future developments relevant to the baseline as well as the CDM project activity;**

(vii) **[*Optional:* Socio-economic aspects:**

(viii) **Influence of the project on the socio-economic situation of the host Party and/or in the specific region in which the project is implemented;**

- ***Socio-economic* impact of the project beyond its project boundaries, in the influence zone;**
- **Additional effects (indirect) of the execution and functioning of the project;]**

(d) **Contribution to sustainable development, as defined in Agenda 21 and the relevant multilateral environmental agreements;**

(e) **Proposed baseline methodology:**

(i) **Description of the baseline calculation methodology** chosen (in case of a [standardized] [multi-project] baseline, please indicate the relevant section of the [UNFCCC CDM reference manual]);

(ii) **Justification that the proposed baseline methodology is appropriate;**

(iii) **Justification of proposed crediting period;**

(iv) **The estimated operational life of the project;**

(v) **Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project;**

(vi) **Description of key parameters and assumptions used in baseline estimate**;

(vii) ***Project participants shall discuss to what extent national policies (especially distortionary policies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline. Data used for the determination of baselines should be of the highest quality available.***

(viii) **Data sources to be used to calculate the baseline anthropogenic emissions by sources[and/or anthropogenic removals by sinks], such as historic data on anthropogenic emissions by sources[and/or anthropogenic removals by sinks]variables and parameters used**;

(ix) **Historic anthropogenic emissions by sources[and/or anthropogenic removals by sinks] for the activity, as appropriate**;

(x) **Projection of baseline emissions and emissions reduction by year over the operational life of the project**;

(xi) [Sensitivity analyses:]

(xii) **Uncertainties [(in a quantitative manner, *as applicable*)]:**

- **Data;**
- **Assumptions;**
- **Key factors;**
- **Other;**

(xiii) [Project boundaries][**How the baseline methodology addresses potential** project boundary issues.] Methodologies for the calculation of losses and **leakage *at the national and sub-national level*** and its liability assessment;

(xiv) **In the case of a [new][first-of-a-kind] baseline methodology, describe strengths and weaknesses of the proposed baseline methodology;**

(xv) **Other environmental impacts related to the project;**

(f) All information relating to **The *executive summary of the* environmental impact assessment, including social impacts as required under paragraph 68.**

(g) Conclusions on the proposed baseline methodology;

(h) **[/*For land-use, land-use change and forestry projects*/**[For projects involving sequestration], a description of how the project participants will ensure crediting for a sinks projects reflects real, measurable and long-term benefits in enhancement of removals and/or avoidance of emissions of greenhouse gases. For this purpose, the project design document shall **include:**

(i) **A proposed period of time during which carbon would remain sequestered;**

(ii) **Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed**, for example through modalities for ensuring that any carbon released before the specified time period has elapsed will be made up, or modalities regarding the rate at which CERs are issued over the duration of the project; ***and***

(iii) **Modalities to address potential reversibility of carbon sequestration;]**

(i) **[Economic and financial information:**

(i) **Sources of financing and evidence that the funding is additional;**

(ii) **/Financial and economic analysis (internal rate of return, reserve funds, financial flow)/;**

(iii) **/Estimates of the costs of implementation and maintenance of the project over its projected lifetime/;]**

(j) Option 1: **Additionality: Explanation of how the project activity meets *the CDM additionality requirements***

Option 2: Additionality of the project

(i) Funding resources including international and public funding

(ii) economic and financial assessment

(iii) technology assessment;

(k) [Request for assistance in securing funding, if needed;]

(l) **Other information:**

(i) **Comments observations and/or suggestions by local stakeholders and description of their involvement;**

(ii) **Contribution to other environmental agreements (e.g. biodiversity, desertification), as applicable;**

(m) **Monitoring plan:**

(i) **Relevant project performance indicators both within and outside the project boundary;**

(ii) **Data needed for the project performance indicators and assessment of data quality;**

(iii) **Methodologies to be used for data collection and monitoring;**

(iv) **Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;**

(v) **Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;**

(vi) **Description of how monitored data will be used to calculate the emissions reduced [or removed];**

(n) [The **Proposed formula for** calculating, on a periodic basis, the additional reductions and/or removals occurring within the project boundary, including the baseline, monitored emissions and/or removals and other relevant parameters.][**the calculation *of the emissions reduced [or removed]*** and documentation of the following:

(i) **Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are significant and reasonably attributable to the project activity within the project boundary;**

(ii) **Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are /significant and/ reasonably**

attributable to the project activity outside the project boundary and within the geographic area of the reference scenario;

(iii) **The total emissions and removals from a) and b) above;**

(iv) **Comparison of *with the* total anthropogenic emissions by sources [and enhancements of anthropogenic removals] *attributable to the project activity calculated using the approved* within the geographic area of the reference scenario to the appropriate baseline *methodology*;**

(v) **Any additional factor required by the executive board to account for changes in emissions and removals that are /significant and/ reasonably attributable to the project activity but outside the geographic area of the reference scenario;**

(vi) **Emissions reduced during the specified period;**

(o) **References.**

(Note: Further consideration may be required to identify elements specific to projects using [standardized] [multi-project] baselines.)

4. *The executive board shall approve* guidelines for completing information in the project design document shall *including, inter alia,* the following provisions:

(a) Baseline emissions, actual emissions, [baseline removals by anthropogenic sinks, actual removals by anthropogenic sinks,] leakage and emission reductions shall be expressed in units of one tonne of CO_2 equivalent emissions, calculated using the global warming potential (GWP) values defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(b) The emission [or removal] level of the baseline estimate shall be broken down into individual, separate activities in accordance with the methodological approach used. The project design document shall provide disaggregated activity data and emission [and/or removal] factors for each individual reduction activity included in the project baseline estimate in accordance with the level of aggregation used for the baseline estimate;

(c) P ect participants shall discuss to which extent national policies (especially distortiona. olicies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline. Data used for the determination of baselines should be of the highest quality available.

Appendix C (to the annex to decision B/CP.6 on a clean development mechanism)

Reporting by Parties

(Note: This appendix relates to all mechanisms and is repeated in each mechanisms decision. It could alternatively be incorporated into the guidelines to be adopted under Article 7.)

1. In accordance with the guidelines under Article 7 [and Article 5, paragraph 2], each Party included in Annex I shall incorporate in its annual inventory of anthropogenic emissions by sources and enhanced anthropogenic removals by sinks, the following information:

(a) Holdings of ERUs[7], CERs and [AAUs] [PAAs][8] in its registry at the [beginning] [end] of the year, identified by serial numbers;

(b) Initial transfers of ERUs and issuance of CERs and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(c) Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(d) Retirement of ERUs, CERs and [AAUs] [PAAs] from its registry during the year, identified by serial and transaction numbers;

(e) ERUs, CERs and [AAUs] [PAAs] to be banked forward to a subsequent commitment period, identified by serial number;

(f) A uniform resource locator (URL) in the Internet from which up-to-date information may be downloaded on names and contact details of legal, private and public entities, resident within the jurisdiction of the Party, which are authorized or approved to participate in the mechanisms pursuant to Articles 6, 12 or 17.

2. [In accordance with the guidelines under Article 7, each Party included in Annex I shall incorporate information on the following into its national communication:

(a) Project activities under Articles 6 and 12;

(b) How its CDM project activities have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;]

(c) An estimate of the expected contribution that acquired CERs will make towards compliance with its quantified emission limitation and reduction commitment under Article 3 and the expected contribution of domestic actions.

3. Parties not included in Annex I shall report on CDM project activities to which they are host in the context of their reporting commitments under Article 12 of the Convention. [This

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[7] An 'emission reduction unit' (ERU) is defined in accordance with decision D/CP.6.

[8] [An 'assigned amount unit' (AAU)] [A 'part of assigned amount (PAA)] is defined in accordance with decision D/CP.6.

reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3.]

Appendix D (to the annex to decision B/CP.6 on a clean development mechanism)

Determination and allocation of the share of proceeds

1. The amount of the share of proceeds to be used to cover administrative expenses shall be retained by the executive board for this purpose. The remaining amount of the share of proceeds *is* to be allocated to the Adaptation Fund defined in Appendix D to the Annex, to be used to assist developing country Parties that are particularly vulnerable to the adverse affects of climate change in meeting the costs of adaptation. The share of proceeds shall be defined in accordance with the following provisions, or any subsequent revisions to them adopted by the COP/MOP: **The share of proceeds is defined as ...**

Option 1: a proportion of the [number][value] of CERs issued for a project activity;

Option 2*1*: /a proportion/*/x per cent/* **of the /number/***/value/***of CERs issued for a project activity** to the participating Party included in Annex I;

Option 3: [a proportion][__ per cent] of the value of the CDM project [activity]; [This way the administrative costs and the contribution to the adaptation fund are ensured at the outset.]

Option 4*2*: ***/x per cent/*** **of the differential of the costs incurred by the Party included in Annex I in reducing greenhouse gas emissions through a project activity in a Party not included in Annex I and of the projected costs that would have been incurred** ***by the Party included in Annex I*** **if the greenhouse gas emission reduction activity had taken place in the Party included in Annex I which is funding the project activity;**

Option 5: a surcharge to be levied on the basis of the amount of the CERs of a CDM project acquired by the Party included in Annex I participating in the CDM project, and to be paid by that participating Party included in Annex I;

(b) The level of the share of proceeds is __ per cent;

2. Option 1: **No more than [ten]***/y/* **per cent of the amount of the share of proceeds shall be used to cover administrative expenses** ***and shall be transferred to an account maintained for this purpose by the secretariat of the executive board.*** **[20 per cent]/The remaining amount/ of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation** and shall be transferred **to an** ***account maintained for this purpose by the*** **adaptation fund established by the COP/MOP.** ***[30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives./***

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives.

3. ***The COP/MOP may decide to revise the determination and/or allocation of the share of proceeds contained in this appendix.***

[Appendix E (to the annex to decision B/CP.6 on a clean development mechanism)

Decision X/CP.6 on an adaptation fund

The Conference of the Parties,

Bearing in mind **the provisions of Article 4.1 (e) and 4.4 of the Convention and Article 10, subparagraph (1 b),**

Also bearing in mind **the provisions in decisions 11/CP.1 and 2/CP.4,**

1. Option 1: ***Decides*** **to establish an adaptation fund to distribute financial assistance to adaptation projects and measures from the share of proceeds from project activities under [Article 6[16] and] the clean development mechanism [and from transactions under Article 17] to be used to assist developing country Parties[17] that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;**

Option 2: Decides to establish an adaptation fund to assist developing country Parties that are particularly vulnerable, as listed in Article 4.8 of the Convention, to meet the cost of adaptation. The adaptation fund shall be based on the share of proceeds from project activities under Article 6, from certified project activities under Article 12 and from transfers and acquisitions of part of assigned amounts under Article 17;

2. ***Decides further*** **that the adaptation fund shall be managed by [an existing institution** [to be determined by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol]] **[the entity entrusted with the operation of the financial mechanism of the Convention];**

3. Option 1: *Also decides* that Parties not included in Annex I shall submit to the adaptation fund proposals for adaptation projects and measures for which they seek financial assistance;

Option 2: ***Also decides*** **that Parties not included in Annex I shall identify adaptation and measures projects for funding, [following a process of adaptation project identification] and submit requests for financial assistance to the adaptation fund;**

4. **[*Further decides* that funding for adaptation projects under the adaptation fund shall be consistent with ongoing work on adaptation under the Convention.] Parties not included in Annex I shall be assisted with capacity-building at all levels in order to be able to carry out such activities;**

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[16] **'Article' means an article of the Kyoto Protocol, unless otherwise indicated.**

[17] **'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.**

5. *Also decides* **that adaptation projects and measures receiving financial assistance from the adaptation fund shall:**

(a) **Be country-driven, taking into account the common necessities of vulnerable countries within a given region, and the complementarities required by projects in the same region;**

(b) **Be in conformity with national strategies and priorities for the sustainable development of the Party concerned and address the specific vulnerabilities identified in the Party's national communications**[, in a manner consistent with work on adaptation under the Convention]*;*

(c) **Be consistent with relevant international agreements and internationally agreed programmes of action for sustainable development;**

(d) **Have been subject to a social and environmental impact assessment;**

(e) **Be formulated taking account of decision 11/CP.1, paragraph 1 (d) (i) and (ii) (FCCC/CP/1995/7/Add.1);**

(f) **Be implemented in a cost-effective manner;**

(g) **Be subject to** the same level of **monitoring and reporting** as clean development mechanism projects.

6. *Also decides* **that adaptation projects aiming at maintaining the carbon stocked in forests may receive financial assistance from the adaptation fund. These projects shall be given high priority and shall be guided by information from national communications of Parties not included in Annex I, and be limited to the following activities:**

(a) **Conservation of natural forests; and**

(b) **Protection of endangered protected areas.**

7. *Decides further* **that adaptation projects and measures receiving financial assistance from the adaptation fund shall be selected in accordance with, inter alia, a vulnerability index, to be established and maintained by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which shall prioritize [adaptation projects and measures] [Parties not included in Annex I which are particularly vulnerable to the adverse effects of climate change], [giving added priority to those Parties not included in Annex I which, in addition to qualifying as particularly vulnerable to the adverse effects of climate change, have generated certified emission reductions under the clean development mechanism].**

(Note: Further elaboration may be required regarding the management and disbursement of the adaptation fund and further action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.)]

[III. Annex 1 to decision B/CP.6

MODALITIES AND PROCEDURES FOR A CLEAN DEVELOPMENT MECHANISM AS DEFINED IN ARTICLE 12 OF THE KYOTO PROTOCOL

A. Terms of reference for the establishment of guidelines on baselines

1. **The [IPCC] [roster of experts, guided by the executive board], in preparing guidelines for baseline setting for CDM projects, shall be guided *inter alia* by the following terms of reference:**

Objectives

2. **The objective of the guidelines on baseline setting is to provide guidance for the establishment of methodologies for baseline setting for project based activities to:**

(a) **Harmonise, further elaborate, extend and make consistent all baseline methodologies, as approved by the executive board and contained in all baseline related sections of the annex to the draft decision [/CMP.1] on modalities and procedures for a clean development fund;**

(b) **Enable project developers to develop baselines in an objective, transparent and reliable manner; and,**

(c) **Provide guidance for designated operational entities to check baselines in a consistent and transparent manner.**

Content

3. **Guidance should be provided in the following areas:**

(a) **Definition of mutually exclusive project categories (e.g. based on sector, technology and geographic area), which show common methodological characteristics for baseline setting;**

(b) **Methodologies which are most likely to deliver the most accurate baseline. For the project categories identified, methodological guidance should cover project-specific and multi-project baselines, including guidance on the level of aggregation taking into account data availability, geographic areas and data availability;**

(c) **Decision trees and other methodological tools, where appropriate, to guide the methodological choice in order to achieve the most realistic and most likely scenario, taking into account the dynamics of future developments;**

(d) **Possible level of standardisation of the methodologies, while maintaining good accuracy. Standardised parameters should be compiled wherever possible and appropriate. Standardisation should be conservative in order to prevent any**

overestimation of emission reductions accruing from projects under a highly standardised baseline;

(e) **Determination of project boundaries including greenhouse gases to be included in the project boundaries. Relevance of leakage and recommendations for the setting of appropriate project boundaries and indicators allowing for the ex-post evaluation of the level of leakage;**

(f) **Crediting lifetime of a project;**

(g) **Choice of data (international, default, national) and data collection including indicators to be measured, advice on estimation and treatment of uncertainties;**

(h) **Incorporation of relevant national policies and specific national or regional circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.]**

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